THE FINANCE OF FOREIGN TRADE

THE FINANCE OF FOREIGN TRADE

A PRACTICAL GUIDE TO THE OPERATIONS OF BANKER AND MERCHANT

BY

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PREFACE TO SECOND EDITION

THE overseas trade of the United Kingdom has gone through many vicissitudes since the first edition of the book was written, but at long last it is now steadily emerging from the difficulties that beset it, in common with the rest of world trade. That a second edition is called for is an augury that both the import and export trade of the country is on the upward trend, and the opportunity has been taken to incorporate fresh matter that it is hoped will be helpful to all merchants and industrialists.

The thanks of the author are due to H.M. Export Credits Guarantee Department for the full information given in the last chapter on the Government's Export Credits Guarantee scheme.

The forms now given in Chapter XIV indicate the many improvements that have been made in the Department's arrangements for facilitating Credit Insurance.

W. F. SPALDING.

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1936.

PREFACE TO FIRST EDITION

THIS is an unconventional book—practical rather than theoretical. The methods of financing foreign trade described in it may not follow exactly the ordinary accepted rules laid down by writers on economics, but they are those to which the importer and exporter have to conform when seeking financial facilities from bankers. " If you would only tell us how you do the business, and what it really is you expect us to do, there might be some chance of our understanding the position," said one exporter. An importer also remarked, " Why don't some of you bankers put your cards on the table and write a book that will give us information on the procedure to be followed to get our

trade financed ?" Well, after many such conversations with importers and exporters, it seemed not a bad thing to try to explain in detail the principles of trade finance, and this small book is the result.

A quarter of a century's experience in import and export finance has made it plain to the writer that merchants and shippers are frequently anxious seekers after help and guidance, and one sometimes wonders whether they get it quite in the way they want. An exporter will discuss with the banker ways and means of financing his wares ; he will spend an hour or so trying to probe what are to him the mysteries of finance, and even then go away with the "what for ?" expression in his eyes that shows he has not understood all he should have done about the business.

For such this book is written, and the author trusts they will not consult its pages in vain.

There never was a time in the history of our country when it was more necessary to expand its foreign trade, and certainly a step in the right direction is for all to know how to finance that trade, particularly with those countries that appear to offer greater possibilities than, say, the old markets. Where a field for enterprise appears to exist, we have shown it, and how the trade is financed is described. Other avenues may be explored in a future edition.

The author has to thank Mr. Leslie Couper, C.M.G., and Mr. R. Roy Wilson, M.P., of the Bank of British West Africa ; Sir Newton Stabb, O.B.E., and Mr. H. D. C. Jones, of the Hongkong and Shanghai Banking Corporation ; Mr. A. W. Martin, of the Anglo-South American Bank, Ltd. ; and a whole host of bankers and overseas correspondents for advice and assistance. He is also specially indebted to Sir William Clarke, of His Majesty's Department of Overseas Trade, for full information on the "Export Credits Scheme." That each and every one of these gentlemen may be rewarded by a rush of traders to avail of their financial assistance is the earnest hope of

WILLIAM F. SPALDING.

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THE FINANCE OF FOREIGN TRADE

CHAPTER I

INTRODUCTION

WRITTEN in lighter vein as an introduction to a live subject.

WE live in an age when one half the people seems to be occupied in trading, while the other half spends its time in writing books telling them how to trade. It was ever thus. The traders stand ready to receive, and others eager to give advice. Let the reader turn to any dictionary of quotations, English or foreign, classical or Oriental, and he will be amazed to find the plethora of material descriptive of his calling and the wealth to be derived from it. " Trade," one will tell you, " is the golden foundation " ; another will exclaim, " Trade, trade, why, it is the mother of money ! " Even Robert Louis Stevenson could not refrain from telling us that everybody lives by selling something. So it goes on, and though traders sometimes affect to be annoyed by the epigrammatic way in which scribes describe their activities, yet, in secret, they are just a little proud of the notice they receive.

It was, we suppose, the visible progress of England as a great trading nation that brought forth the Frenchman Barrère's famous gibe : " A nation of shopkeepers." A nation of shopkeepers, forsooth !—were he alive to-day, we imagine he would have been surprised to find that trade has been the means of founding and maintaining an Empire —a greater Empire than has been. The English speaking nation is proud of its so-called traders. We are not here to affect modesty, so we will say, without further ado, that the pre-eminence of Great Britain and its Empire in trade

is due to the honesty, skill, and caution of our mercha and bankers, as well as to the unsullied integrity of Bri justice.

There is no possible shadow of doubt that the neces: for the extension of trade, business or commerce— reader may choose just which term he likes—has me the opening up of countries far and wide. It has be further, a great civilizing element.

Barter.

We need not take too much to heart the pithy utterar of those folk who see visions, golden visions, in trade, sir if the reader will forgive a solecism, trade is money money is trade. Primitive trade, the manner in wh goods or commodities passed from man to man, was barter. The difficulties inherent in any system of bar are well known. They led the ancients to seek for sc common measure of value for the articles to be exchang When a man voluntarily traded off a pelt for a piece flint, he was in effect elevating the pelt to the rank money; and with the appearance of money a gr civilizing element had come into being. A fresh ave of activity had been opened up, and in due course trader, the middleman or merchant came upon the sc —commerce was born. The birth of commerce brou many problems in its train, problems which, seemin have grown in difficulty with the progress of civilizati Domestic trade and foreign trade are both inseparable fr foreign exchange: the whole problem is, in fact, one exchange. Yet, if we can only get down to the fundamer origin, the solution should not be so very hard.

The Evolution of Trade.

We may be permitted in this connection to paraphr a few remarks from a speech given by a banker to bank and traders a few years ago. Some of his comments w delicious, albeit instructive. Actually, the speaker dealing with the subject of foreign exchange, but he g

an illuminating description of the evolution of trade. He showed that foreign exchange is a process that touches the daily life of every man. It is one of the oldest processes of life, and it goes back to the very beginning of civilization. In fact, exchange antedates what we call " civilization." The earliest vestiges of the Egyptian and Babylonian civilization began to appear about six or seven thousand years ago, but long before that, as modern researches have proved, men were sufficiently civilized to leave records of their acts—they were bartering or trading one with the other. Every day, more and more records of the tools and the ornaments of prehistoric man are found very far from places in which they were manufactured, if we may use in this connection such a term, thus indicating the the ancient beginnings of trade.

Curiously enough, it is now generally accepted that foreign trade is older than domestic trade. Prehistoric tribes, whether families or clans, apparently did little or no buying and selling within the tribe ; their trade was with neighbouring tribes—strangers or enemies, and in most languages one word described both the enemy and the stranger. Well, it was a mighty step towards civilization when a tribe took a little time off from making flint weapons with which to gain ascendancy over other tribes, and instead began to study what articles might be made for the purpose of exchange with the other tribes. Each studied the wants of the other, and trade and exchange was the result. Of course, we know that it is customary for economic writers to show that trade and exchange began with the division of labour. Quite true, since when once man had discovered that by a little self-denial or abstinence he could accumulate goods or produce to be exchanged for other goods, or the labour of others, the elements of trade plainly arose. Consequently, it was an important stage in the development of civilization of mankind when one fellow voluntarily traded, say, skins for flint, instead of trying to take what he wanted by force.

It did not always follow that articles to be traded exchanged were actually made by the traders, though the labour was given in so far as they exerted themselves search for the wherewithal to trade. If was usually som thing ornamental—an article to be coveted—that wa sought for in early trade. Beautiful skins, lovely shell and the like were familiar articles of exchange. Shells, take an example, were valued by primitive man becau they appealed to the women. That being so, it was perfect natural for the ancient traders to hunt for shells, or to trac their surplus fish or bear meat for shells, and with tl latter endeavour to win the favour of the gentler sex. a man went fishing and had no luck, it would be qui simple, we suppose, for him to persuade his lady fair to pa with one or two of her shells, and then for him to sall forth in the hope of finding someone who was long on fis and short on shells.

Now, whether money, which is at once a medium exchange and the thing for which every trader, home foreign, seeks, had its origin in the vanity of woman or i man's adoration of her, is immaterial, but what is materi to us is, how to get the largest amount of money for tl smallest surrender of our labour or products in trade. I other words, we have to learn to trade and to finance ou trade on the most economical basis. No man is in busine for the sake of his health, as the Oriental says ; he is in to get a living and a little more besides.

We may agree with all the economists say about tl evolution of trade from barter, or the civilizing influence early trade. A civilizing element did undoubtedly enter int human life when the primitive weaver found that he coul get his shoes cheaper by making two baskets, one for himse and one for the shoemaker ; and trade quickly develope when the humble shoemaker perceived that he could ge his baskets cheaper by working a few hours longer an producing two pairs of shoes, one pair for himself and th other pair for the weaver. It was a case of individu

application to one occupation producing more for all than an effort of each individual to do all for himself.

Well, to return to the banker whose speech we referred to just now, he argued that it was no mere accident that caused the first civilized traders to set up business in places where exchange was easy—on the edge of deserts, where land transport was not impeded by heavy woods or great mountains, or along the banks of great rivers—along the banks of the Euphrates and the Tigris, for instance. Easy lines of communication made it possible for men to serve more of their fellows than could possibly have been the case if they had been obliged to hack their way through wood, or through rock, in order to reach their fellow men. Civilization, then, has been pretty generally dependent upon the progress that men could make in widening and cheapening their lines of communication, in order that they might serve more men than they had been able to serve before, and in return be served by more men in payment for services rendered.

That, then, is the problem of exchange, or, as we prefer to say, of trade. It is simply the application of the fundamental principle of the division of labour. There is no difference between foreign trade and domestic trade, except that when the transactions between men are across the boundary lines that mark the separate countries or states, then the exchange is called "foreign trade." Under the present organization of trade, where large-scale production is the rule in every progressive country, our foreign and domestic trades are so inextricably mixed up, that no man can tell how much of the domestic trade that he engages in is part of the processes which go into the foreign trade of the country.

"Fair Exchange."

Every exchange transaction, said our banker friend, is reciprocal: you give something and you get something. You transfer goods or render services to others in return

for the goods they transfer or the services they render to you. Exchanges go on only so long as they are mutually profitable. It is " fair exchange " that is " no robbery," by which we mean that the goods and services that this country furnishes to other countries will represent goods and services of equal value furnished to this country by other countries. Our exports of merchandise will never exactly balance our imports of merchandise; but our exports of merchandise, plus the services that we render to other countries, including all those indirect services, such as loans of capital, interest, immigrant remittances, and other invisible items, will equal in value the imports of merchandise plus the services that other countries render to us. There is no escape from such a conclusion, unless men are to quit exchanging things of equal value and begin to give things away. We hear a lot, a terrible lot, about our export trade, but politicians and the man in the street, whom the old sage of Chelsea described as " mostly fools," seem to forget that our export trade involves also an import trade. The nation that will not buy, neither shall it sell! This is a short and sweet phrase which might be repeated to those good folk who so constantly urge that we must keep and expand our export trade, while at the same time we curb and limit our import trade. These people add, that while we are doing all this, we must make the fullest possible use of our mercantile marine; we must render more and more shipping services to other nations —hold the rest of the world in fee, in fact. Further, it is said, we must be careful, ever so careful, that they do not render more than the barest shipping services to us. None of these people ever tell us in what conceivable way we are to be paid for the additional shipping services we are to render, or for the heavily expanded exports we are to ship to other countries.

America and World Trade.

It is the old, old tale, that does not seem to lose in the

telling, constant as it is. The Americans get the same thing, in another form, dinned into their ears. When Europe was plunged into the Great War, there was a good deal of talk in the U.S.A. to the effect that the war meant that America would soon be the leader in the world's trade. Particular reference was made to the trade of South America ; the implication being that America had only to stretch forth her hand and then that trade would be hers. It was said that the total trade of the world amounted to some thirty billions of dollars, and that that was the great stock for which the principal nations of the world must henceforth contend. Apparently this total was obtained by adding up the figures of the exports and imports of all the countries of the world. Such methods pre-suppose that the trade of the world is some sort of huge pie, which, despite its great size, is limited in amount, and that somehow or other it can be cut up and distributed, and that what went to one was taken away from the other. Without commenting on the monstrosity of such a delusion, we need merely return to our former remark—trade is nothing but exchange. Nobody in the world of trade gets anything without giving something. A candid American said of the South American prize that was being so temptingly held before their eyes, that one would have been led to belleve that all they had to do was to go down to South America and get something for nothing, which previously the European nations had been getting also for nothing. The fact that any man who engaged in a business different from the business that he was already in, would necessarily be required to expend a portion of his capital in the new venture, seemed for the moment to have been dropped out of sight. We need not say more about it, except that, as a result, America bought several million dollars' worth of experience in South American trade, which we may hope for her sake has turned out a good investment. That she did make losses is indubitable—it was the price she paid for listening to street-corner orators, whose train of economic

reasoning can only be compared with the line of thought that led King Canute to bid the waves to recede.

Well, the reader by this time is probably ready to exclaim, "Yes! it is all very interesting, but when are we going to hear something about the financing of foreign trade?"

"Very soon," is the reply, "but we had to introduce you carefully and cheerfully to what is commonly regarded as a dry-as-dust study."

The Bill on London.

However, now that we have shown in an unorthodox, and certainly not in an academical way, to what commerce owes its inception, how it not only depends upon the products of a country, but also upon the skill of its inhabitants, to say nothing of its carrying trade, and that a certain amount of clear thinking is necessary, we may proceed to examine the methods by which trade is financed. As we shall show, the foreign trade of the country is largely financed by a species of international currency—to wit, the Bill on London. That bill has a wonderful reputation, which dates from the gradual adoption of the liberty of trade policy recommended, if not inaugurated, by that great seaman—he was a great statesman, too—Raleigh. We want the reader to perceive what a great rôle the bill of exchange plays in his business, and we commend to all traders the necessity for learning how best to made use of bills and the credits which give rise to bills. It is all part and parcel of his business, and time spent in endeavouring to understand some of the banking problems involved will not have been spent in vain. It is always useful to give a few hours' study to subjects that may help us to be more efficient in trade. We close with an example from the ancients that may prove of interest. It is taken from the history of the banker, Hermias of Assos in Asia Minor, which has recently been made much more complete by the discovery of a new papyrus that throws an interesting light on Greek commerce. Hermias had been sent by his patron,

a great trader and banker, to Athens to study philosophy. His diligence seems to have commended him to his patron, for on his return the latter took him into partnership. Henceforth he was a banker, philosopher, patriot, and trader, and a study of his history, had we space to go into it (the reader will probably be relieved to find we have not), reveals how closely political power, trading, and finance are related.

CHAPTER II

BILLS OF EXCHANGE

WHICH the reader may skip if he really does know all about the instruments which are so largely used in financing trade.

A CERTAIN discerning critic once said of a book descriptive of foreign exchange, that the only fault he could find was that it did not tell one what a bill of exchange really was. To avoid a like charge we had perhaps better commence with a correct definition, as laid down by the Bills of Exchange Act of 1882. Here it is—

" A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to bearer."

Well may the reader exclaim, " That does not enlighten me much ! " We agree with him ; as an eminent legal luminary said, it *is* an enormous definition, and truth to tell, there is nothing like a good old legal definition for obscuring the issue. Yet, as Byles in his voluminous treatise on "bills " remarks, no precise form of words is really essential to the validity of a bill of exchange, provided it substantially complies with the above-mentioned definition, but, one hastens to add, it must be an unconditional order, though it may be accepted conditionally.

A Promise to Pay.

Reduced to its simplest terms a bill of exchange is a written order to pay, and as credit in trade, whether home or foreign, is largely made up of orders or promises to pay, it may conduce to simplicity if we first take, by way of example, a promise given in the domestic trade of the country, since, as we have shown, domestic and foreign trade are closely interwoven. Let us take the case of a

manufacturer in the furniture trade. He sells a quantity of goods to Mr. Faith for £100, and the latter does not want to pay for them until he has sold the goods to Mr. Hope, who is about to enter into the bonds of holy matrimony with Miss Charity. The problem is how to get Faith, Hope, and Charity into line. Faith, being a man of known probity, we may assume, will pay the manufacturer, Peter Trust, by means of a bill of exchange, and this is how it works out. Peter Trust will draw a bill on Faith, the retailer, and it will be somewhat in the following form—

EXCHANGE FOR £100.

MANCHESTER,
30th March, 1926.

Stamp 1s.

Three months after date pay to me or to my Order the sum of One Hundred Pounds Sterling, value received.

PETER TRUST.

To *Alexander Faith, Esq.,*
*Old Street, London, E.C.*1.

When Peter Trust has drawn this bill which, being an inland bill, must be on a form bearing the Inland Revenue stamp for one shilling impressed on it, he presents it to Alexander Faith for acceptance. Faith writes across the face of the bill, " Accepted, 31st March, 1926, payable at the Midland Bank, Old Street, E.C.1., A. Faith." He thus signifies his assent to the order of Peter Trust, and sends it back to that gentleman. Trust may then keep the bill in his portfolio until maturity, or, as we shall see later, he may take steps to turn it into cash. The bill is payable by Faith three months after the date it bears, plus the three days' grace allowed for payment under English law, and therefore, we may assume that on 2nd July, 1926, the bill will be presented to Faith's bankers, the Midland Bank, and Faith, having by this time received the money for his goods from Hope, will have paid the necessary funds into his account at the bank, so the bill will be met without further ado.

The Parties to the Bill.

A word about the parties to this instrument called an "inland bill of exchange." Peter Trust, who drew up the bill, is called the "drawer"; Alexander Faith, the person upon whom it is drawn, is termed the "drawee," and after he has written those necessary words across the bill of exchange—"Accepted, etc."—he also becomes the acceptor of the instrument. It may appear to be a trifling point to mention, but the reader might just note that to be an acceptor a man must be a drawee. This fact is mentioned because there are cases on record in which attempts have been made to prove the contrary, and it has needed a court of law to demonstrate that a person cannot accept a bill unless it is addressed to him.[1] Although Faith wrote his acceptance to this bill across its face, he might just as well have written it on the back, and it would have been perfectly legal. Still, in practice, most acceptors do write the acceptance on the face of the instrument.

There is an important point which may not have occurred to the reader. Faith, by assenting to the order of the drawer, has fixed a time for the payment of the debt beyond dispute, and this is a useful quality in an accepted bill of exchange, since once the act is performed the debtor cannot go back on the creditor and say he did not promise to pay. We see, then, what a wonderfully useful instrument is this bill of exchange, and in this connection the remarks made by an able judge, more than a quarter of a century ago, are worth repeating. He said—

> The bill of exchange, if you can get it, is a thing that is readily convertible in the money market of London. If you cannot get cash, get as many of your transactions as you can back again in your cash box in the form of bills of exchange. You may find

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[1] The only exception is where a bill has been protested or dishonour by non-acceptance, or protested for better security, and is not overdue. Any person, not being party already liable on the bill, may, with the consent of the holder, accept the bill *supra* protest, for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn. Cf. Sec. 65, Bills of Exchange Act.

yourself pressed for money through failure of people to meet their engagements, or an opportunity may offer of making good purchases for cash. It is no use taking book debts to discount houses or bankers for an advance—they will not look at them; but if you have bills, you can walk into a bill broker's office, and offer good trade bills with names well-known in the various towns in the Kingdom, and in a moment you can turn them into money. I have known a man relieved from most pressing engagements because he could go and get a considerable sum of money by discounting bills of exchange which he had taken in respect of trade transactions.[1]

Another thing to remember is this, he added; that if once people have put their names on bills as acceptors they will do their utmost to meet them, because of the fatal consequences of their dishonour. On the other hand, payment of a debt that is merely in the books of the creditor may be long delayed, and the creditor does not readily sue a man who is slow in payment. It is otherwise with an accepted bill: if not paid at due date, various legal formalities have to be complied with, which tend to shake a man's credit. Therefore, bills of exchange are not things, as the worthy judge said, to be trifled with. The moment you put your hand to a bill of exchange it goes away—it circulates everywhere.

There is still another matter to which we may refer before passing on. When Faith returned the bill to his creditor, Peter Trust, the latter, not wishing to keep his money tied up for some three months, discovered another quality inherent in the bill. It has been completed by acceptance, and has, therefore, become a negotiable instrument. In other words, this valuable piece of paper is a debt that, by the various processes we have described, has been turned into a marketable commodity, capable of being assigned or transferred to another in the easiest possible manner. Perhaps Peter Trust wanted liquid capital: he, therefore, transfers the instrument to his banker, after endorsing it by writing his name on the back of the bill. Though, just as an acceptance may be legally written on the back of a bill, but in practice is always written on the face of the

[1] *The Law of Negotiable Instruments*, p. 53; Judge W. Willis.

bill, so an endorsement may be written on the face of t
bill, yet is always written on the back. This particu
bill reads: " Pay to me or to my order—Peter Trust,"
Trust, in order to transfer the property in the bill to t
banker, must write his name on the back and, in the wo
of the Bills of Exchange Act, deliver it with the intenti
of passing the property therein. That formality bei
completed the banker discounts the bill, that is, buys
or becomes the transferee by giving Trust, the transfer
a price for it, settled either by agreement or by the marl
rate of discount for such instruments. Trust has thus ag
liquid funds to employ in his business.

Bills of exchange may change hands any number of tin
before maturity by endorsement and sale, and the bank
should he so desire, may himself pass on the instrum
by endorsing it and selling it to someone else. Inde
bills, especially those used in the foreign trade of
country, may be said to become more valuable, from
point of view of security for their ultimate payment,
every name of an endorser on the bills, since the holder
value has a right of action against each person whose na
appears on the bill. However, we are now entering i
the valley of the dry bones of law, so we had better
pursue the matter further at this stage.

The Foreign Bill.

Let us turn to a consideration of the foreign bill, w
which, after all, we are more intimately concerned in t
book, and here we may have recourse to yet another d
nition.

The Act states: " An inland bill is a bill which is or
the face of it purports to be (*a*) both drawn and paya
within the British Islands, or (*b*) drawn within the Brit
Islands upon some person resident therein. Any other
is a foreign bill."

This is a clear and unequivocal statement, and if
reader will study it carefully, it may help him in decid

what is a foreign bill. As a matter of fact, the Act in a sub-section adds that, unless the contrary appear on the face of a bill of exchange, the holder may treat it as an inland bill.

The principal test to apply, it will be observed, is that of the drawee's domicile ; it is not so much a question as to where the bill is payable, since a bill may be an inland bill if it is drawn on a person resident in the British Islands, and yet be payable in some other country. A bill drawn, say, in London upon a person in Paris, and yet accepted payable in London, would be an inland bill, as would also be one drawn upon a person in London and accepted payable at a bank in Paris. But a bill drawn in London upon a person or firm resident in Paris, and accepted and made payable by him in Paris, would be a foreign bill. We have to beware of traps, however. There is a difference when it comes to complying with the terms of the English Stamp Act. According to the Stamp Act of 1891, any bill of exchange made (or purporting to be made) out of the United Kingdom is deemed to be a foreign bill. This definition results in a curious anomaly. Bills of exchange drawn or made in the Channel Islands or the Isle of Man, as far as the Bills of Exchange Act is concerned, rank as inland bills, but for the purposes of the Stamp Act, they are foreign bills.

Apart from this, there are a few differences in regard to foreign bills which may be noted ; they will serve to emphasize the difference between an inland bill and a foreign bill.

Subject to the above-mentioned provisions, a foreign bill may be one drawn from this country on a person in another country, calling for payment or acceptance and payment in a foreign country. A bill drawn from a foreign country upon some person resident in the United Kingdom is also a foreign bill, whether the sum payable be expressed in English currency or not. The general test is, does the bill on the face of it purport to be a foreign bill ? If it does not, it may be treated as an inland bill. Hence the

frequent reference we have in legal codes and tre to " foreign bills, appearing on the face of them such."

In the case of the dishonour of an inland bill the l may, but is not forced to, note or protest the bill of exc for non-acceptance or non-payment. The Bills of Exc Act really makes it optional for the holder to note an i bill, but as a condition precedent to proceedings being to recover payment on a foreign bill, it must be pro for non-payment or non-acceptance and, as the Act s " If it be not so protested the drawer and endorse discharged. Where the bill does not appear on th of it to be a foreign bill, protest thereof in case of dish is unnecessary."

Noting.

A few words of explanation of the terms " noting " protesting " may be given. Noting a bill of exc is the term given to describe the minute made on a l a notary public, when the bill is either refused acce] or payment. A ticket or label is attached to the bill the notary's initials, the date, the noting charges, a1 answer given to the notary or his clerk when he ma presentment. In law it is held to be satisfactory ev of non-payment or non-acceptance.

Protest.

A protest is a written document containing a copy bill, signed by the notary making it, and givir following details: name of the person at whose r the bill is protested, place and date of protest, ca reason for protesting the bill, the demand mad answer given, if any, or the fact that the drawee or ac could not be found. It is not absolutely essential th services of a notary public be employed to make the p Where a dishonoured bill is authorized or required protested, and the services of a notary cannot be ob

at the place where the bill is dishonoured, any householder or substantial resident of the place may, in the presence of two witnesses, give a certificate signed by both, attesting the dishonour of the bill, and the certificate in all respects operates as if it were a formal protest of the bill.

Generally speaking, a merchant or trader will be guided in all these things by his banker, or more probably the banker will take any action necessary to protect his customer. Even so, it is fitting that the trader should be fully informed as to the legal formalities required, therefore a further word of caution may be necessary.

According to the Bills of Exchange Act, when a bill is protested for non-acceptance it may, at the option of the holder, be protested for non-payment. The Act, it will be noted, says "may," not "shall," but it is the considered opinion of most legal authorities that it is advisable to effect the second protest if action be taken in the foreign country from which the bill emanated. This is by way of added precaution, since in most foreign countries protest for non-acceptance does not excuse the later protest for non-payment.

Foreign bills are generally drawn in sets of two or three, and when one copy is honoured the others become void. The acceptance must be in writing, and may be on any one of the bills in the set.

Dishonour.

"If I take action on a bill, just what amount can I recover?" one is often asked. Well, in the event of dishonour, and provided compliance with the necessary legal formalities has been made, the holder of the bill may recover from any party liable on the bill, and the drawer who has been compelled to pay the bill may recover from the acceptor, while an endorser who has been compelled to pay the bill may recover from the acceptor or from the drawer or from a prior endorser: (*a*) the amount of the bill; (*b*) interest from the time of presentment for payment

if the bill is payable on demand, and from the maturity of the bill in any other case; (*c*) the expenses of noting or protest, when that is necessary. If the bill has been dishonoured abroad, the holder may recover from the drawer or endorser, if any, the amount of the re-exchange with interest thereon until time of payment.

Re-exchange.

The "re-exchange" is the difference in the value of a bill due to its being dishonoured in the foreign country in which it was payable. The amount of the difference will naturally depend upon the rate of exchange between the two countries, and the theory of the transaction, according to the late Sir John Byles, is this: A merchant in London endorses a bill for a certain amount of Austrian currency, payable at a future date in Vienna. The holder is entitled to receive in Vienna a certain number of Austrian schillings at the date of maturity of the bill. The bill is dishonoured, and the holder is, by custom of merchants, entitled to immediate and specific redress, by his own act, in this way. He is entitled, being in Vienna, then and there to raise the exact number of Austrian schillings by drawing and negotiating a cross bill, payable at sight, on the endorser in London, for as much English money as will purchase, in Vienna, the exact number of Austrian schillings, at the rate of exchange ruling on the day of dishonour. He is also entitled to include in the amount of the bill the interest and necessary expenses of the transaction. If the English endorser pay the redraft or cross bill, he has fulfilled the engagement of indemnity. If not, the holder of the original bill may sue him on it, and will be entitled to recover in that action the amount of the redraft or cross bill, with the interest and expenses thereon. The amount of the verdict will thus be an exact indemnity for the non-payment of the Austrian schillings in Vienna on the date of maturity of the original bill.[1]

[1] Cf. "Byles on Bills," p. 325.

Chalmers, in his annotated edition of the Bills of Exchange Act, says the sum recoverable against a drawer or endorser in the United Kingdom is the sum for which a sight bill drawn at the time and place of dishonour or the place where the drawer or endorser resides, must be drawn in order to realize, at the place of dishonour, the amount of the dishonoured bill and expenses of protest, postage, customary commission and brokerage, and, if a re-draft be drawn, the price of the stamp.

The drawer of the bill of exchange, according to the same authority, may be liable to re-exchange in each country through which the bill may have been returned.

As regards foreign bills dishonoured by the acceptor in London, it is held that the holder cannot recover re-exchange from the acceptor; his remedy is against the drawer; but where the foreign drawer has been compelled by the laws of his own country to pay re-exchange at a fixed rate to the holder of the bill, he is legally entitled to recover those damages from the acceptor of the bill in England.

As a last word on these foreign bills, we may look at the opinion of Sir John Paget, who examined the position at some length in a lecture a few years ago. Dealing with the requisites in form of foreign bills, he says some sort of concession must be made to the eccentricities and idiosyncrasies of other nations if we are to utilize bills at all for international commerce. Sect. 72 of the English Bills of Exchange Act, which may be said to treat of foreign bills, does not help us very much; it says: "Where a bill drawn in one country is negotiated, accepted or payable in another, the rights, duties and liabilities of the parties thereto are determined as follows: 'the validity of a bill as regards requisites in form is determined by the law of the place of issue.'"

The authority to whom we have referred rightly argued that it would be monstrous if, before a man in London could deal with a foreign bill, he had to satisfy himself that it was valid by the law of its place of origin, and Lord Halsbury also once demonstrated the absurdity of such a suggestion by taking the case of a bill in China. People

here are not taken to be cognizant of Chinese law ; it may be the same as our own in these matters, but how is a business man to know that ? We fall back, then, on a proviso to Sect. 72 of the English Bills of Exchange Act, which enacts that " where a bill issued out of the United Kingdom conforms, as regards requisites in form, to the law of the United Kingdom, it may, for the purposes of enforcing payment thereof, be treated as valid as between all persons who negotiate, hold, or become parties to it in the United Kingdom " Therefore, it seems to be essential that persons who take such bills should be careful to see that they conform in all respects to the validity in form laid down by the English law and custom. But validity in form is one thing, and validity of contract another, and in this connection the legal effect appears to be that where a contract is made in one country to be performed in another, the country in which the contract is to be performed is deemed to be the country in which it was made. Hence we arrive at this conclusion with regard to foreign bills.

The contract is not concluded until the act of acceptance and/or payment is completed in England, and as long as the requirements as regards requisites of form are complied with, the persons who take such bills are safe. In fine, as Sir John Paget implies, there is a whole string of judgments dealing with this question, and they have laid down the rule that if a man in a foreign country draws a bill on England in English form, payable here, he must be taken to have meant it for an English bill, to be dealt with throughout and by everybody who touches it, as an English bill, thus debarring any reference to the law of the place of issue on any question of form. A " foreign bill," he concludes, " in English form is as much an English bill as an inland bill . . . and the case has been proved and relied on in lots of judgments since the Bills of Exchange Act came into force."

At the risk of tiring the reader we have dealt with this question of bills at some length, and for this reason :

importers upon whom bills are drawn are constantly raising questions as to their rights and liabilities on such instruments, and it may serve to set their doubts at rest if they will give a little time to the study of the question.

We shall not pursue the matter further at this stage, but constant references to the drawing and negotiation of foreign bills will be made throughout our study, and after having had this preliminary canter, so to speak, the reader will doubtless be in a better position to understand the various points raised.

CHAPTER III

GENERAL SURVEY OF FINANCING

A GENERAL survey of the financing of exports and imports—from the point of view of the tyro who is new to the job, and who wants to know what to do, how to do it, and with whom to do it.

IT sometimes falls to the lot of the author to interview beginners who are seized with the desire to earn their daily bread and something over by taking a hand in the export trade of the country. He finds that although most men occupied in the domestic trade of the country are certainly not babes and sucklings, yet it is astonishing how easily they are dismayed when they find that a banker does not jump at the chance of taking all the risk in the finance of their proposed shipments to foreign countries. Why should the banker do so? He is the custodian of his customers' funds—they are the lenders and he is the borrower, so to speak, and it is the banker's business to avoid imperilling the money of his clients. A short time ago, when many politicians were urging that the overseas trade of the country could be expanded if only the bankers would lend funds more freely, an old banker gave the direct retort, "Don't forget it's your money you are asking us to lend!"

The would-be exporter has to remember that before he can hope to build up an export trade he has to gain, not only the confidence of his foreign buyer, but also that of the banker whom he wishes to be the intermediary in the business. The banker, for his part, will require to be satisfied with the standing of the parties to the transaction, namely, the British exporter and the foreign importer, and he will need some assurance that the shipment, or shipments, proposed comprise readily saleable commodities of a non-speculative character. He will be able to get full information on the honesty, financial standing, probity, and credit worth of both parties from the sources at his

disposal. The result of the banker's inquiries on the several points will largely determine the extent of the financial facilities he will be inclined to grant to the exporter.

The Small Exporter.

It is said that the large firms or companies have little or no difficulty in obtaining financial accommodation. In a way that is true, but if the smaller man goes the right way to work he can soon get his financial requirements carried out as well as, if not better than, say one of our merchant princes. Let us first of all take the case of the small exporter who is anxious to build up an export business. We will suppose he has been successful in a small way in manufacturing textile goods for the home trade, and that by judicious advertising in one or other of the trade journals, he has received inquiries from an Italian importer. After the usual *pourparlers*, he gets a trial order for his goods, and then he begins to look round, and soon finds he and his doings will be weighed in the balances—not, we hope, to be found wanting.

The exporter, if he is a wise man, will lose no time in wending his way to his bank, in order to make a start by procuring information concerning the financial standing and respectability of his buyer; he will also discuss with the banker the very vital question of finance. Now, nothing succeeds like frankness in these matters, so we will assume that our exporter friend places all his cards on the table; he tells the banker what he intends to do, gives details of the class of goods he expects to ship, their value, and the name of the foreign importer.

"Do you know this Italian, or have you had any previous dealings with him?" asks the banker.

"No!" is the reply.

"Very well, then, we will find out all about him for you," says the banker, or possibly, as most bankers have very complete opinion lists, the banker may be in a position to give the information on the spot. In due course, having

satisfied himself as to the *bona fides* of the foreign importer, the banker is prepared to discuss how best the exporter may obtain payment for his textiles.

In this export finance the burden may be carried by the exporter, by the importer, or by the bank. The exporter may elect to entrust the bank with the duty of collecting the money for his goods; the importer may make arrangements for payment against the documents of title to the goods on this side; or the banker may advance the necessary funds. Suppose the banker in the case under discussion does not wish to take the risk of financing the shipment until he has had experience of how the business works, as the exporter is new to the trade with Italy. In that case the banker will give every assistance to the exporter to obtain payment for his goods as quickly as possible. He will explain to him the formalities connected with the drawing of a foreign bill of exchange, the preparing of the bill of lading, the insuring of the goods against marine risk, and the preparation of the invoices. A good deal of business with Italy is financed by three days' sight bills, so the banker will elect to assist the exporter by sending the bill and the relative shipping documents out to Italy, through his bank or banking agents for collection and remittance of proceeds.

Bills of Lading.

After the exporter has delivered his textiles to the shipping company in properly secured packages, all addressed to the consignee, numbered and marked, he will receive from the captain or his authorized representative a bill of lading. This instrument is the document of title to the goods, signed by the captain of the ship, acknowledging the receipt of the textiles on board, and undertaking to deliver them to the consignee, "or to his order or assigns," upon payment of the stipulated freight. Frequently, freight is paid on this side—it all depends upon the seller's contract of sale with the buyer. Bills of lading

are usually drawn in sets of three, one of which is retained by the captain of the ship, another forwarded (through the bank) to the consignee, while the third copy is retained by the consignor (or his banker), as a precaution against fraud on the part of the master of the ship.

When he has obtained his bills of lading, the shipper will first of all endorse the copies he hands to the bank, by writing his name on the back, and then will attach to the bill of exchange the bill of lading, together with invoice, marine insurance policy covering the value of the goods, and any other document necessary to the shipment.

The exporter may possibly ask what is the reason for his being required to endorse the bill of lading. The answer is, that by custom of merchants, the bill of lading is taken to represent the goods shipped, and the endorsement and delivery by him transfers the property to the endorsee—the banker—who is the exporter's agent for collecting the value of the goods.

When the documents are delivered to the banker, after satisfying himself that they are all in order—and bankers are wonderfully expert in these things—he will send them to his foreign branch or agent for collection. On arrival in Italy, the bill will be presented to the importer, who will not get the documents of title to the goods until he has paid the amount of the bill. It is customary for these documents to be mailed by fast overland routes, and they will generally arrive before the goods, so the importer has good time to examine the invoice, etc., and, if anything is wrong, the banker and his agents can usually communicate promptly with the exporter. However, assuming that everything is all right, the bill is honoured. On receipt of the necessary advice of payment, the banker will in turn pay the amount to the exporter, less the agreed collecting commission, and less foreign bill stamps. The banker will, if necessary, arrange that telegraphic advice of payment is sent to him, and then the exporter will get his money with the least possible delay.

A Specimen Bill of Exchange.

We have assumed that the bill was drawn in pounds sterling, so perhaps we had better give a specimen. Suppose the bill is for £100, first of all it should be noted that it will be drawn on a piece of paper bearing an impressed Inland Revenue stamp of 1s., and it will run something like this—

EXCHANGE FOR £100.

Stamp
2d.

LONDON,
June 30, 1935

Three days after sight of this first of exchange (second and third of same tenour and date unpaid) pay to me or to my order, One Hundred Pounds Sterling, value received.

PETER SIMPLE.

To *Messrs. Vagliano & Cie,*
Milan.

This bill, it will be noticed, will require the endorsement of Peter Simple before it is handed over to the bank for collection.

Now let us assume that after one or two operations have gone through satisfactorily, the banker is willing to facilitate Peter Simple's turning over his capital quickly by buying his bills outright. In this case the exporter will not have to wait for his money, but on presentation of his bills, with the shipping documents, the banker will discount the bills for him, that is, buy them at their face value less an agreed discount. Where the exporter elects to have his bills discounted by the banker, the sum charged by way of discount, which is really the interest the banker charges for the time he is out of his money, will be higher than the cost of collecting a bill for the exporter's credit. It must be borne in mind, however, that there is a distinct advantage to the exporter, since he has not to wait for his money. Some of the larger export houses appreciate fully this difference in cost, and rather than bear the heavier charge

made by the banker for discounting a bill, they may elect to allow him to send their paper for collection. They can do this, of course, as they have sufficient capital to finance the transactions themselves.

Where a banker purchases a bill outright from an exporter, he naturally does so on the understanding that it will be paid by the foreign importer at maturity, but even so, the banker preserves his recourse on the exporter who has drawn the bill of exchange, and, in case it be dishonoured by non-payment, he will look to the drawer for payment of the amount of the bill, plus any charges that may have been incurred by reason of non-payment. In this connection we may mention that the exporter, by drawing a bill, engages that it shall be accepted and paid according to its tenour, and that if it be dishonoured he will compensate the holder of the bill.

In daily banking practice one frequently hears exporters girding at the banker's charges when negotiating or purchasing their bills. But it must be remembered that a banker is not in the business for the sake of his health, neither is he a philanthropist, and if he lends money on a bill, for that is what it amounts to in practice, he must charge sufficient interest to recompense him for the time he is out of his money and the risks, however slight, he runs. Take the case of the bill on Italy that we have just been examining. It will be something like six or seven days, at the earliest, before a banker would get the money back that he had advanced. If the bill be for £100, and the banker's rate of interest or discount be 1 per cent over Bank of England rate, say 6 per cent, the amount he will pay to the seller will be about £99 17s. 6d. So, considering the nature of the service the banker has rendered, the charge is not very onerous.

Documentary Credits.

We have said that the burden of carrying the finance of a shipment may sometimes be carried by the importer.

In this case, probably the most familiar way of doing the business is by what is known as a documentary credit, and leaving out all the trimmings and technicalities of letters of credit at this stage, we will confine ourselves to a consideration of this simple document.

The importer, being keenly desirous of getting the goods, will approach a bank in his own town; that institution, being satisfied with his standing, reputation and *bona fides*, and also having assured itself that the goods are readily marketable, will possibly agree to advise the London bank, either by mail or by telegram, that it may buy the exporter's bills drawn on the importer up to a certain amount, such bills to be accompanied by a full set of shipping documents. In this case, the banker acts as the intermediary, and advances the money on the joint security of the exporter and importer. Before the bank in the foreign centre will open such a credit, it will require various forms signed by the importer, who guarantees that in consideration of the London branch of the bank making advances on the bills which the exporter may draw on the importer, he, the importer, engages to accept and to pay the bills at maturity if drawn in terms of the credit.

These credits have the twofold advantage of enabling the exporter to obtain payment for his goods immediately they are ready for shipment, and the foreign importer to obtain delivery of the goods at port of destination on acceptance or payment of the bill, as the case may be.

Letter of Hypothecation.

One or two points in this particular form of documentary credit call for notice. First, the reader should note that the documents of title to the shipments will all be hypothecated to the bank, that is, pledged against payment of the bill. In this connection we may mention that some banks require the exporter to sign a letter of hypothecation. This document, shorn of all its technicalities, is simply a certificate attached to the bill of exchange; it is signed by

the drawer, and describes the nature of the shipment, quantities, etc. This letter of hypothecation states, first, that the bill of lading is lodged as collateral security for the acceptance and payment of the draft; secondly, that in case of dishonour, the holder is authorized to dispose of the goods, and to apply the proceeds towards payment of the bill and expenses incurred; thirdly, that the drawer holds himself liable for any deficiency, and agrees to pay it on demand. When an exporter sells a number of bills of exchange to a bank, a general or "blanket" letter of hypothecation is given, and is made to apply to any and all of the bills of exchange purchased from that exporter from time to time.[1]

Another important point is this: In these documentary credits, or advised credits, as some people call them, frequently appear the words: "Please note that this is not to be considered as a bank credit, and does not relieve you from the liability usually attaching to the drawer of a bill of exchange." In passing, we may say that the last phrase appears to be superfluous, since, unless the drawer of the bill has put the words "without recourse" in the body of his bill of exchange, he will remain liable on the bill until it is paid. The remark about the credit not being a bank credit is in the nature of a precaution. The original idea seems to have been to emphasize the fact that the bills were not to be drawn on the banker, and that the banker accepted no liability as to their acceptance or payment. The bills, it will be observed, are drawn on the importer, and nowadays it appears to be considered that this gentleman has the right of cancellation, though banks are very firm in their disinclination to cancel such credits, provided the terms are carried out to the letter. Cancellation is a very thorny subject, especially in view of the fact that in the light of recent legal decisions, it is fairly clear that there is no liability to accept bills, unless it can be shown that such of the conditions of the credit

[1] Cf. "*International Exchange,*" p. 65, by E. Stewart Patterson.

as could possibly have been fulfilled when the negotiation of the bills took place, had in fact been fulfilled.

Then, again, it was demonstrated in a recent legal action that, in the event of cancellation, there is no legal obligation on the part of a bank to give notice of cancellation to the beneficiary of a credit, though in practice most banks do give such notice, but as an act of courtesy only, be it noted.[1]

Advantages of Documentary Credits.

However, lest the reader be seized with alarm and tempted to believe that even when he has got a documentary credit, there is a danger of its being cancelled, we hasten to say that in general practice an enormous amount of business is done under documentary credits without any untoward circumstances arising, and the value of such credits is apparent. They do bridge most effectually the gap between the dispatch of the goods and the time of payment for them. Moreover, the intermediary banks (the institutions through which the documents pass, or who have been instrumental in advising the opening of the credit) efficiently safeguard the interests of both exporter and importer. Notification of the opening of the credit is a guarantee to the exporter that payment will be made to him as soon as he ships the goods, while the importer may rest tranquil in the knowledge that his money will not be paid away until the documents of title to the goods are actually in the hands of his bank at the import point.

In addition to all these duties, the banks render to importers and exporters many other useful services, and to these we shall refer as we go along.

The documentary credit to which we have referred is, as the reader will have observed, more in the nature of an authority to purchase bills, and some authorities go so far as to say that it is not a letter of credit at all. Indeed, beyond the fact that this authority to purchase is issued by one bank instructing a second bank, or a branch of the

[1] *Cape Asbestos Co., Ltd.,* v. *Lloyds Bank, Ltd.*

first bank, to buy the bills drawn by the exporter on the importer, there is little security in the shape of the bank's name behind the bill. The documents are, however, used very extensively in the trade with India, China, and the Far East, and in practice the business works well.

Still, as several exporters have remarked to the writer, there seems to be an endless variety of credits, and the names given to them are certainly puzzling to the person who comes fresh to the business.

Various Kinds of Credits.

"What," says the exporter, "do you mean when you bank fellows talk about confirmed credits, clean credits, and blanket credits? The first seems to smack of a church ceremony, the second reminds one of that virtue that is next to godliness, while, as to the third, well, I suppose it has something about covering in it!"

Then, when the bewildered exporter hears the banker glibly describing credits as "revocable," "irrevocable," "unconfirmed," and "revolving," his cup is about full, and the banker spends a pleasant half-hour in explaining the intricacies of such documents used in the finance of the world's trade.

There is no need to weary the reader with long, dry-as-dust explanations; it will suffice if we say that all these credits, with the exception of the "clean" credits, are documentary in the sense that they provide for the drawing of bills of exchange with documents attached. The "clean" credit is one issued by a banker, under which the beneficiary is allowed to draw bills without the necessity for attaching shipping documents to them. As a rule, a banker has got to be pretty sure of his man, and covered by the actual deposit of cash, security, or otherwise adequately guaranteed against loss, before he will agree to issue a clean credit. A "blanket" credit is a general credit covering a series of shipments over a more or less extended period. Such credits are used where the contract

of sale is for a definite quantity of produce or commodities to be shipped within a given time; it may not be possible to send all forward by one boat, so the credit is made to cover the whole of the drawings that may be necessary to complete the contract.

Generally speaking, the great mass of credits used in the financing of foreign trade may be grouped under two headings—"unconfirmed" and "confirmed"—or, as some prefer to call them, "revocable" and "irrevocable." These bankers' credits differ from the documentary credit or authority to purchase that we have examined, in that it is the banker in this case that takes upon his shoulders the burden of financing the business; or, in other words, his name, or his credit, is substituted for that of the importer and exporter.

Difference Between Confirmed and Unconfirmed Credits.

Just which form of credit will be issued necessarily depends upon the terms agreed to between buyer and seller of goods. If the exporter can get the importer to sign a contract of sale, calling for a confirmed banker's credit, so much the better, though in some circumstances he has to be content with an unconfirmed credit, and it is well that the difference between the two credits should be appreciated. In the one, it will be clear, the banker confirms that he will accept the bills drawn by the exporter upon him; in the other, he does not confirm that he will give his name as acceptor of the bills. Bankers have lately been at some pains to make the position plain to traders, so let us see what one of them has to say on the subject.

In a booklet issued by the Westminster Bank, Ltd., that he who runs may read, we are informed that "an unconfirmed credit is subject to revocation, that is to say, cancellation, with or without notice, at any time." It seems to be a weak rod, upon which he who leans is likely to pierce his hand. As the bank in question

rightly says: "A merchant might manufacture the goods ordered and incur all the expenses incidental thereto, and suddenly find that the credit on which he was relying for payment had been cancelled without any notice or warning whatever, by an unscrupulous buyer who, for reasons of his own, wished to get out of his contract. It is even possible that one or other of the intermediary banks might see sufficient reason for withdrawing the accommodation, though such a contingency is very remote. It follows that credits of this character should only be accepted from buyers of standing and undoubted integrity."

The bank then goes on to show that the confirmed or irrevocable credit carries the issuing bank's absolute guarantee of payment. It cannot, we are told, be cancelled except by the consent of the beneficiary, i.e. the exporter, and if the exporter is in a position to fulfil his part of the contract to the letter, he is not likely to consent to revocation of the credit.

We reiterate, then, that the important point of difference between a confirmed credit and an unconfirmed credit is this. In the confirmed credit the exporter has the written undertaking of the bank that it will accept his bill on presentation, but in the case of the unconfirmed credit he has no such assurance. To reduce the distinction to its simplest terms, it is as if the banker said, when issuing the two forms of credit: "By my confirmed credit I stand; your bills will be accepted so long as you comply with the terms of the credit. As to my unconfirmed credit—well, it is all right in a way—I may accept your bills, but do not guarantee to do so. If the importer asks me to accept no more bills under it, I must take him at his word, however unpleasant the consequences to you. I am very sorry for you, but there you are."

We have heard the term "revocable confirmed credit" used, but in actual practice there is no such document, since no bank would lend its name to, or confirm, a credit which could be cancelled at will.

The writer has had a good deal of discussion with merchants and manufacturers concerning unconfirmed credits, and is inclined to agree with the view expressed by some that the position is far from satisfactory. It certainly is high time that the banks came to some definite understanding among themselves about the issuing of such documents. However, it will be realized that the banker is to a large extent in the hands of the parties to the transaction. If the importer and exporter are not sufficiently sure of each other to make the necessary arrangements for a confirmed banker's credit, the banker seems to be rather powerless in the matter. Some banks, it has been pointed out to the author, evade the issue by the insertion of some such clause in the credit as this: "It must be understood that this letter is for your guidance only in preparing documents and conveys no engagement on the part of the bank, as we have no instructions to confirm the credit to you."

"Why issue such a document at all?" said one engaged in the business, and certainly the question is a little difficult to answer. Unconfirmed credits continue to be issued, and many bankers abroad join in the risk and are apparently content to purchase bills against them. Competition is keen these days, and bankers take risks they would have refrained from doing a few years ago. An example may show how the credits operate.

How the Credits Operate.

A London joint-stock bank, we will suppose, is sufficiently satisfied with the standing of one of its customers, an importer, to open an unconfirmed credit. Very possibly the goods it is desired to import are marketable commodities relatively steady in price, and the banker may consider it advisable to trust to the expert knowledge of the foreign or colonial bank, which is requested to pass on advice of the opening of the credit. He communes within himself: "The man on the spot abroad will, I hope, see to

it before negotiating bills that the goods shipped are what my customer has contracted for." So the procedure, briefly, will be this. The joint-stock bank passes on this document called an unconfirmed credit; it sets forth the conditions under which bills are to be negotiated abroad; the documents to be delivered will be described in detail; the usance of the bills drawn will be given, and a brief description of the goods to be shipped is inserted in the credit. The period for which the credit is opened is also stated; place from which the goods are to be shipped given; quantities, price, and other details are inserted. The credit is then passed forward to the London branch of a foreign or colonial bank which has an office at the port of shipment. The foreign or colonial bank, being in its turn satisfied with the conditions attaching to the deal, and relying on the joint-stock bank to see that the bills are met with due honour when they arrive in England, will send an advice by mail or by telegram to the foreign point. In the advice it will inform its branch that the unconfirmed credit has been opened, and authorize it to purchase the bills on the terms indicated. If the man abroad is in turn also satisfied with the conditions, and with the position of the exporter on the spot, he will hand on to that gentleman advice of the opening of the credit. In due course he will then negotiate the bills drawn.

In practice, it is surprising what a vast amount of business is done on these lines without trouble. But, needless to say, there are occasions when revocation is resorted to, and then a very pretty dispute ensues between the various banks, the importers, and the exporters. Law cases not infrequently result, and we have the usual trial of strength, wit, and persuasive powers to see whether or not full compliance with the terms of the credit has taken place. Sometimes the one side wins, sometimes the other, and all too frequently the banker is left to foot the bill. There is little wonder, then, that bankers do their utmost to protect themselves. That there are weaknesses inherent

in the system no one denies, and the writer, having been called in several times to explain to judges and the parties interested the precise significance of these credits and their working, has been hard put to it to convince legal men of the wisdom of bankers in continuing to lend their names to such unsatisfactory documents as unconfirmed credits. Nevertheless, as one eminent judge pointed out, as long as merchants and traders are content to ship their goods with the knowledge that cancellation of credits is hanging over their heads, they cannot be exonerated from blame. "You take the risk," said one man, "well-knowing the danger, and now have to spend time and money trying to prove that you do not know anything about it."

A Word of Advice.

If a word of advice may be given to merchants and traders it is, that if they want to be on the right side, scrupulous care must be taken to carry out to the letter the full terms not only of the credit, but also of the contract of sale. In the event of dispute, the slightest deviation may be seized upon as justifying the cancellation of a credit.

These lines are not, of course, penned with the idea of frightening the would-be entrant into the uncharted seas of foreign commerce, but it is necessary to show things as they are, and as they may be, so that the trader may be prepared for all eventualities. Nor do we wish to question the probity of either exporter or importer; but the reader has to remember that in the chances of the ever-changing markets, it is often a case of every man for himself, and in times of crisis or of falling markets, each will seek to avail of loopholes to escape from unprofitable bargains.

CHAPTER IV

THE FINANCING OF THE EXPORT TRADE

JUST by way of leading the reader gently along the path of instruction, we have referred in somewhat general terms to the methods by which our foreign trade is financed. If the reader be a seller he will, now that he has some idea of the working of the business, sympathize with the reluctancy of the buyer in parting with his money before he has got the goods. On the other hand, if the reader be the buyer, he will equally appreciate the seller's desire to receive payment before the goods leave his hands. This being so, it falls to the lot of the banker to solve these and other peculiar difficulties arising in international trade—difficulties which are accentuated owing to the time taken for goods to reach their destination, to the attendant risks while *en route*, and, very frequently, to the risks arising from fluctuations in rates of exchange. In a word, the banker has to fill the void by making available one or other of the methods of payment to which we have referred. However, in overseas trade, the middleman is as prominent as the banker—in some cases more so, as we shall presently see.

Perhaps it will be as well if we trace out at this stage the various ways in which an export could be financed or paid for.

The method of payment will, of course, depend upon the terms of the contract of sale, and, to a large extent, upon the custom in any particular trade or country. Thus, in some cases, we meet with business done entirely on cash terms, either cash with order or cash on delivery. In the cash-with-order business the burden of financing a shipment is shifted on to the shoulders of the foreign buyer, who will remit in one form or another, i.e. by banker's draft, cheque, or telegraphic transfer, the wherewithal to pay for the

goods he is buying. It is a system mainly used in small transactions, and although in some respects it is rather a nuisance in the early stages, from a commercial point of view the cash-with-order business is useful as often leading to the opening up of new and important connections and markets.

Cash on Delivery.

The cash-on-delivery system, in force in the export trade, carries us a step higher in the financial hierarchy. The usual practice is for a foreign importer to cause instructions to be sent to a banker in the exporter's town, authorizing the banker to pay a certain sum of money against delivery of shipping documents. In a way, it amounts to the laying down of funds in a foreign country for the express purpose of their being utilized to pay for goods ordered. The opening of such a credit may be by mail or by telegram, and although in most cases no letter of credit is issued, advice is sent to the banker in the exporter's town directly arrangements have been satisfactorily concluded. Cases have come under the writer's notice in which the importer does not make any money payment until shipping documents are received. Where he is a man of good repute he will make arrangements with his own banker, and the latter will take delivery of documents, pay the amount required against them through his own foreign branch or agent, and will debit his customer's account in due course with the sums disbursed, a charge naturally being made for the accommodation, either in the way of interest at a fixed rate for the time the banker is out of his money, or in the shape of an agreed commission.

In other cases, the importer will be required to deposit the amount required before the banker will agree to make the payments in the foreign centre.

In this cash-on-delivery business the exporter, it will be plain, takes no risk.

Other Arrangements.

Other exporters allow buyers to maintain a running account, on the understanding that payments must be made at certain specified periods, and in this particular case it is really the shipper, that is, the exporter, who is taking the financial risk.

Another practice current in places like the Far East is for the importer to make his own financial arrangements with, say, a London house, to confirm his orders to the exporter and to accept bills covering the purchases from time to time. Under this arrangement the exporter is concerned only with the credit of the house authorized to care for the financial requirements of the importer on this side. The greater part of the trade between the United States of America and the Far East is transacted on this basis, and similar working arrangements are often in force in London. Briefly, the method is this: Jones & Co. will be doing business, say, in London; the firm will have its counterpart, say, in Shanghai, and by a close working arrangement an indent business will be built up. On the one side the export finance is cared for, and on the other the import finance is managed. Business on large lines has been built up from small beginnings in this way. In this connection it will be useful to interpose here a short account, given by one of the American banks, of the working of indent or commission business in the Far East.

Commission Business in the Far East.

It is estimated that about twelve export houses handle one-quarter of the entire export trade of the United States, and that two practically control American trade with China. Obviously, some care has to be taken in making definite arrangements with export commission houses for representation in the Far East, and it is essential that something on the lines of the conditions as shown on page 40 be agreed upon at the outset.

1. That the representation will be given active and adequate attention.

2. That the export house is adequately represented in the territories for which the agency is granted.

3. That a certain period of development is allowed; if results do not follow, the manufacturer or shipper is then at liberty to make other connections.

4. That the export house will be fully protected on business reaching the manufacturer through other channels.

The American bank in question was dealing with the methods by which American manufacturers and exporters get their wares sold and their shipments financed, but similar methods are equally applicable to English exporters.

Indents.

A word about indents. There are necessarily various kinds of indents, and two are mentioned as being of particular importance. As is well known, the order received from a foreign importer is called an indent. A closed indent is one that specifies the particular person or firm with which business is to be transacted, while an open indent is one that leaves the choice of the firm to the discretion of the house handling the order. Generally speaking, it is not advisable for the exporter to limit his buying agent to these orders, nor do the indent houses or other firms usually handicap business by enforcing such limitations.

Naturally, there are obvious advantages and disadvantages to be found in this method of handling overseas trade, and what is suitable for the extension of American commerce may not be altogether acceptable to British traders. However, as a banker has pointed out, indent and commission houses have been an important factor in the development of the foreign trade of the United States. A special study of the foreign field is made by such establishments, and in consequence they understand the requirements. The organization of credit, transportation, and

distribution is not the least part of their activities. Then, as to the advantages; the immediate advantage of dealing through export commission houses is the centralization of effort on the part of both buyer and seller. As far as is practicable, all orders collected are shipped on one bill of lading, and the foreign merchant alone is saved the expense of corresponding with numerous exporters and manufacturers. Indent and commission houses, too, are frequently in the position of being able to open up new markets, and to give information regarding the placing of new lines of goods. In fine, by dealing through such organizations, the manufacturer at home is sometimes saved considerable trouble and expense, since the selling of his export, the extending of credit, financing, and insuring of goods are in expert hands.

The disadvantages which will at once occur to some people lie in the separation of the actual buyer and seller. The exporter is not in direct contact with the foreign importer, and unless the former is the supplier of goods, the trade mark of which or designation is well known, his name is probably seldom to the fore. With two houses, the one in the foreign point and the other at home, these difficulties are in a large measure overcome. But in any case where firms are not large enough, or their ramifications extensive enough for this purpose, the export and import commission houses do fulfil a very useful purpose, and as they control a good deal of foreign business which the small man cannot very well secure without their co-operation, doubtless their activities will continue to grow.

The writer calls to mind several of these indent houses which market British exports from this country in an extremely able way. They represent many exporters, each small in his way, but collectively making for large business, and the indent house is therefore able to make adequate arrangements for finance with its own bankers, which, but for its intervention, would not have been possible for the small exporter.

Examples of Procedure.

Now to return to examples of actual practice.

We will suppose that the exporter has been able, by means of tactful correspondence, to persuade the foreign importer to make the necessary arrangements, whereby a banker on this side is authorized to buy the exporter's bills, with shipping documents attached, for the value of the export when ready. The documentary credit, referred to in Chapter III, is opened and in due course the exporter presents his bills to the bank. If everything be in order the bank buy the bills, and in general the exporter considers he has nothing further to worry about, except repeat orders from the foreign importer. He would do well, however, to pay due regard to the clause to which we called attention, viz., "This is not to be considered as a bank credit and does not relieve you from the liability attaching to the drawer of a bill of exchange." In banking parlance, this particular form of authority to negotiate bills is known as a "documentary credit with recourse." Exporters are occasionally uneasy about this method of finance, and the author has more than once been asked to explain the real effect of the words "with recourse." It is this: If the foreign importer accepts and pays the bill, all is well. If for any reason whatever he does not meet the bill, the banker has recourse on the exporter, that is to say, on cabled information of non-payment or non-acceptance from his foreign branch or correspondent, he immediately calls upon the exporter to repay the money advanced on the bill of exchange. Or, if on the instructions of the exporter the banker arranges the sale of the goods in the foreign centre, he can call upon the exporter to make good the deficiency, if any.

"Is there any way of avoiding this liability?" one is asked.

There is. Sometimes the authority to the bank to negotiate the exporter's bills is modified by the omission of the clause which provides that the drawer's liability on

a bill remains until it is met, and by substituting in its place a phrase to the effect that the bills are to be negotiated without recourse to the drawer. However, as we have been already at some pains to point out, in the author's opinion the exporter will be well advised not to rely too much upon the " without recourse " clause in a documentary credit, unless the words actually appear on the bill of exchange itself. Granted, the banker himself would in most cases stand by the wording of the actual credit document ; but in this business we have always to be ready for eventualities. So we may mention the case where the bill gets into the hands of third parties. If the instrument itself does not bear the words negativing the drawer's liability, he is still liable on the bill, as a third party could not be held to be cognizant of terms in another contract (the credit is one contract, the bill another) of which he himself was ignorant.

Apart from this, however, many experienced exporters, being fully aware of such risks, accept orders based on these credits with recourse, only for shipments of standard materials, and when the importers are firms or individuals of undoubted responsibility and have a reputation for honest dealing. In all other cases they insist upon credits " without recourse " being opened, see that the words are embodied in each bill they draw, or else make arrangements whereby they are reasonably sure of getting their money, and at the same time not risk the losses resulting from non-payment by the importer.

Drawing Bills Under Documentary Credits.

In drawing bills under documentary credits it is necessary to comply with various formalities and customs peculiar to the trade of each country, and in most cases the bankers who negotiate bills issue detailed instructions for the guidance of exporters drawing bills. Among other things, the banker requires definite instructions as to whether the bills are to be what are called " D/A " or " D/P " bills. These

mystic letters simply mean "documents on acceptance" and "documents on payment." The exporter himself will be able to judge from the information he has collected, or with which he has been provided by the banker, precisely the amount of reliance that can be placed upon the foreign importer. If the latter is of good reputation and is well known to the banks, the exporter will probably be advised either to mark his bills "D/A" or to attach a slip with that information on it. When the banker at the foreign port receives the bills, he will present them for acceptance and, if everything be in order, he will deliver up the shipping documents, which are the title to the goods, immediately the importer has accepted the bills. In the case of drawees or importers but little known, or of small means and standing, the exporter will probably direct that the bills are to be "D/P," that is, documents of title to the goods are only to be surrendered on payment of the relative bill of exchange.

In the case of documents-on-payment bills an incentive is frequently offered in the shape of a rebate, or discount, if the bills are taken up before maturity, and in some cases (it depends upon the custom of the place) the exporter will be called upon to indicate the rate of rebate or discount to be allowed to the foreign importer, if he elects to take up the bill before maturity. Further, in both cases, that of the "D/A" and of the "D/P" bill, the exporter is frequently called upon to give the bank that negotiates the bills instructions as to what action, if any, is to be taken in the event of non-acceptance, or non-payment, as the case may be. He will be required, for example, to state whether the bills are to be noted and/or protested, or whether any other person—called "case in need"—is to be notified in the event of these irregularities occurring. Notification by cable is also arranged for, particularly in the case of shipments of perishable goods, or of commodities that are required to "catch markets." Any delay in such cases might possibly cause serious losses, and the shipper

is always advised to pay special attention to these points for his own protection. Generally speaking, no responsibility attaches to the negotiating banker or his agents beyond compliance with the instructions of the shippers, and for this reason such instructions should be full, clear, and unequivocal.

Another Method.

We may now turn to another method of finance, this time on the supposition that a British exporter desires to ship goods to, say, South Africa. Again, as the subject of arrangement, he has been able to get the importer to arrange with a bank in his own centre to issue a letter of credit on the bank in favour of the British exporter, authorizing the latter to draw bills on the issuing bank up to a certain specified sum. Frequently, the Bank in England at which such drafts are to be negotiated is specified. The African Bank, in the credit issued, promises that the exporter's bills will be honoured if presented on or before a certain fixed date, provided, in the case of bills drawn at so many days or months after date or sight, the shipping documents are surrendered against acceptance, or against payment when the bills are drawn at sight.

A word of caution here again is necessary. A London bank, even if its name does appear on the credit, is not necessarily compelled to regard it as a confirmed bank credit, unless it has itself received direct advice of the issue of the credit from the bank in, say, Capetown or elsewhere. Consequently, in the *pourparlers* with the foreign importer, the exporter should be careful to insist that the actual credit be advised to the London bank as well as to himself. The point is this. When the bank in London has notified the exporter that such a credit has been opened, it " confirms " the credit, and is held responsible for negotiating the drafts if the terms of the credit are properly carried out. The exporter, once his bills are negotiated, is really no longer concerned with the payment of the bill,

which will be honoured in due course by the African bank upon whom it is drawn ; the latter, of course, having made its own arrangements with the importer to be put in funds to meet the bill at or before maturity.

It is otherwise with an unconfirmed credit, which, as we have stated elsewhere, is more or less of an instruction to a bank, say, in London, from a foreign or colonial bank in the centre to which goods are being shipped, to negotiate the bills drawn by the exporter to a specified amount, until it receives from the foreign importer notice of cancellation.

All letters of credit invariably give detailed instructions for the guidance of the exporter in preparing his documents, and sound banking practice requires that the conditions shall be faithfully and strictly observed. The documents which must be delivered are carefully enumerated, and the usance, that is the time for which the bills are to run, say, three or four months' sight or date, is stated. In practically all cases, particularly of confirmed credits, the period for which the credit is available is stated, and in preparing shipments and documents the exporter should be careful to allow for delays in railway transport or carriage to the seaboard, as, in the event of the expiry date being overrun, a banker would be fully justified in refusing to negotiate bills. The amount up to which bills may be drawn is also clearly set out, and the exporter cannot exceed the sum stated.

Details in regard to insurance should also be observed, and if a credit calls for the insurance to be placed with first-class insurance companies, no attempt should be made to attach second-rate companies' policies to the bill of exchange.

Where the contract calls for the attachment of certificates of origin or consular certificates, this formality should also be carefully complied with. In fact, it cannot be too strongly urged upon the exporter to see that every detail in the credit is observed ; only by so doing can the disputes that constantly arise be avoided.

Bank Acceptances.

Another method in force for financing exports is by bank acceptances. Two different ways of doing this have come under the writer's notice. The first is that by which the exporter draws a bill of exchange upon the foreign importer, and then presents this bill, with the relative shipping documents, to the banker in London. The bank regards this bill and the documents as collateral security, in return for which it allows the exporter to draw a separate bill upon the bank for the same amount. This second bill the banker accepts himself, and as it then ranks as a bank acceptance, it is easy for the exporter to get the bill discounted on the London market at low rates. Or, alternatively, he may get it discounted at a bank and so obtain the value of his export forthwith.

A good deal of this acceptance business is done by the London joint-stock banks.

The second method is that in vogue at the London branches of the foreign and colonial banks, who issue a credit called a "London acceptance credit." This particular credit is a variation of a confirmed banker's credit, only in this case, when the facility is made available, the bills are drawn and accepted in London just in the same way as in the case outlined above. These London acceptance credits are more particularly used when exporters are consigning goods to a foreign branch of their own firm, although they may, of course, also be used if the goods are consigned for sale to agents.

No special form need be used for opening these acceptance credits; the matter is frequently arranged by the exchange of letters between the bank and the person requiring the accommodation. After the preliminary details have been settled, the bank confirms to the exporter that he may draw bills up to a specified limit and within a prescribed time on the banker in London, who guarantees to accept the bills. The procedure then is simple. The exporter prepares his shipment, draws his bill of exchange on the

banker, attaches to the bill the requisite shipping documents, and then presents the complete set to the banker. The bill will be, say, at three months' sight; when the banker receives it he detaches the bill from the shipping documents, completes the bill by accepting it, and then returns it to the exporter. The shipping documents are then forwarded by the banker to his own branch abroad for delivery to the consignee.

A small commission is charged for this service, say, about 2 per cent per annum on the amount of the bills, and the accepting commission is paid to the banker as each bill is drawn and accepted.

Hypothecation.

In this case the exporter is required to hypothecate to the banker the goods he ships. As a matter of fact, he signs a letter of hypothecation giving the banker a lien over the shipment as security for the amount of the bill the banker has accepted; and it is usual, in the case of these acceptance credits, for a separate letter of hypothecation to be sent in with each bill drawn.

Among the usual conditions, the letter of hypothecation contains an undertaking that the proceeds of the consignment shall be remitted to London, through the foreign branch of the bank, in time to arrive before the maturity of the bill upon which the banker has become liable as acceptor.

Further Remarks on Bankers' Acceptances.

The advantage of financing exports by bankers' acceptances in London is that the exporter receives his money at once. Bankers' acceptances are the best class of paper for discount purposes, and are discountable in London at the best rates.

Whether or not the exporter is permitted to draw for the full value of the shipment is a matter of arrangement with the banker. Sometimes the banker will allow the exporter to draw for the full amount, at other times he will accept

bills only for, say, 75 per cent of the invoice value; it all depends upon the country to which the goods are being sent, and the commodity shipped.

In all cases the banker accepting bills under these credits is considered as making an advance on the security of the whole of the shipment. A point to be noticed also is, that the banker does not lose his recourse on the drawer of the bill when he delivers the produce to the foreign importers. In the letter of hypothecation the exporter specially undertakes that when the documents of title to the goods are handed to the consignees, the latter are to hold them until realization, and also the proceeds of sale after realization, in trust on behalf of the banker.

The exporter has certain obligations to fulfil when financing his shipment by means of bankers' acceptances. For instance, if for any reason sufficient funds are not forthcoming to repay the banker for the amount of his advance, as represented by the bill or bills he has accepted, and will have to pay at maturity, then the exporter, in accordance with the undertaking he has given in the letter of hypothecation, has to make up the deficiency immediately he is called upon by the banker to do so. To make this clearer, we may say that it sometimes happens, when trade is not brisk at the foreign centre, that the goods are unsold, or perhaps only a portion is sold when the bill falls due for payment in London. The proceeds for the part sold will have been remitted to the banker. The banker as acceptor of the bill has to pay it at due date. Having paid the bill he looks to the drawer for funds, or for the balance short covered. Sometimes the drawer is allowed by the bank to pay the amount of the first bill he (the banker) has had to meet, and then to draw upon the banker a fresh bill for the balance outstanding. The goods unsold represent the security. The banker again accepts this new bill, and the drawer promptly sells it under discount on the market, so he will get back at once most of the money he has just paid the banker for the first bill short covered.

Here, again, if the banker considers it unwise to accept a bill for the whole amount represented by unsold goods, he will arrange that the exporter, after completing the cover for the first bill, draws a bill, say, for 75 per cent of the balance outstanding ; to this bill the banker will give his acceptance in the hope that the goods will have been sold before maturity and the matter closed up.

Renewals of this nature are not liked by bankers, but in times of dull trade it sometimes becomes necessary to grant the accommodation which, generally speaking, is fairly expensive to the drawer.

Where the banker accepts a bill, and the exporter at the same time hands him another bill, drawn on the foreign importer, attached to the shipping documents, the banker of course can usually get his money quicker, since as soon as the foreign importer has paid the bill, the matter is closed.

Such are the main principles of financing exports ; there are naturally many other ways and means of utilizing the banker's services for assisting in the movement of cargo. Different methods are in vogue for different countries and different commodities. Of some of these we shall speak later ; but before doing so, we will examine the other side of the picture—the finance of imports, and this is important enough to merit a separate chapter.

CHAPTER V

THE FINANCING OF IMPORTS

THE financing of imports does not differ materially from that of the export trade; the importer stands in the position of debtor to the foreign exporter, his creditor. Like the exporter, in the early stages he may elect to do without the credit of the banker, and may merely utilize that gentleman as a troublesome intermediary. We will take one or two examples to see how the matter works out in practice.

The trader may decide to allow the exporter to draw bills of exchange upon him payable at sight, or at so many days or months after sight or date—just according to the custom of trade, and the distance between the two countries with which operations are being conducted. Whatever be the method of settlement for imports, whether by cash on delivery, or by means of bills of exchange drawn on the importer, the mode of payment agreed upon should be clearly stated in the contract of sale.

Suppose, by way of example, that arrangements be made for the exporter to draw his bill upon the importer—we are leaving out of the question, for the moment, letters of credit—the exporter will have sent the bill through a foreign or colonial bank, and in due course it arrives in London. The bank's correspondent, say, the Midland Bank, receiving the bill, will present the bill for acceptance to the importer, that is the drawee, and the latter will examine the shipping documents. If all be in order, we assume he will complete the bill by accepting it. Immediately this formality is completed, the Midland Bank will detach the shipping documents and hand them over to the importer, who is then in a position to deal with the goods when they arrive. If there be any defect in the shipping documents, such as unsatisfactory insurance, a bill of lading not clean

—that is to say, one marked "X packages received damaged," or "X cases re-nailed," or if perchance the invoicing of the goods be unsatisfactory, or the bill drawn for a larger amount than was arranged—these facts should be immediately notified to the presenting bank, so that it may be in a position to notify the foreign exporter's bank, and take whatever steps may be necessary to preserve recourse on the drawer, such as noting and protesting the bill.

In accepting import bills of exchange it is customary for the importers to domicile them, that is, to make them payable at their bankers by writing across the face of the bill, "Accepted, such and such a date, payable at the A B Bank, Blank Street, John Jones." This facilitates payment of the bills at maturity.

Charges on Import Bills.

With regard to charges on import bills, such as bill stamps, banker's collecting commissions, and the like, in the absence of other arrangements, it is customary for London banks to deduct the charges from the proceeds of the bill before remitting them to the drawer or his agent, which, of course, is by far the better plan, as the importer knows exactly what he has to pay, since it is the actual amount named on the bill itself. Sometimes, however, bills bear the clause, "Plus all charges," or "Charges at the expense of drawee," and in such cases the importer will be called upon to pay the cost of English bill stamps and other charges. To avoid all disputes it is as well, therefore, for a clear understanding to be made with the exporter before shipments actually commence.

In many cases the importer, once he has accepted the bill of exchange, does nothing further about payment until the bill is presented for payment at the maturity date, plus the three days, of course, allowed by English law

Bankers and Accepted Bills.

The joint-stock bankers generally keep accepted bills in

their portfolios until maturity. It is otherwise with the exchange banks or foreign and colonial banks in London. They are engaged in financing the export trade as well as the import trade, and will frequently have very full employment for their funds. Such banks very often sell accepted bills under discount on the London money market, and in their case they have sometimes to deal with the question of those importers who wish to retire their accepted bills before maturity. On the assumption, then, that the banker has got the bill discounted, and the acceptor comes along and wishes to pay it before maturity, what is the banker to do? He has sold the accepted bill to someone else, and might as well hunt for the proverbial needle in a haystack as to try to trace it on the London market, as it may in the meantime have changed hands many times. We may say at once that there is no real obligation on a banker to produce the bill before maturity, but bankers are always willing to accommodate an acceptor who is anxious to pay a bill. In such circumstances, then, the custom is to allow the acceptor to pay the amount of the bill, less discount for the unexpired time, at about the ruling rate for discounting bills of the class applicable to the one the acceptor desires to pay. When the rate of discount is arranged, the importer pays his cash and the banker gives him a guarantee in which he (the banker) undertakes to hand to the acceptor the bank's cheque for the full amount required to meet the acceptance at due date.

There is no difficulty where the bank is a joint-stock bank and has retained the bill in portfolio. He simply hands over the acceptance to the importer in exchange for the cash, less the agreed discount. Or, as is frequently the case, debits the account of the acceptor with the amount of the bill, and credits him with the discount, or alternatively, simply debits him with the net amount—i.e. the sum of the bill, less discount.

The retirement of acceptances before maturity by importers has its good points, for by so doing the importer

establishes a reputation for prompt payment, and this nec sarily increases the banker's confidence in him—alway good thing in trade finance.

Payment Before Surrender of Documents.

We have now to deal with those cases in which t foreign exporter insists upon payment before the surrenc of the relative shipping documents to the importer. T procedure in regard to acceptance of the bill will be exac the same, with the exception that the banker retains t shipping documents attached to the bill, and if the impor cannot pay the bill at once, the banks have arrangeme whereby the goods are warehoused until such times the importer can take delivery.

Where the goods are warehoused the various do companies and wharfingers hand over to the bank t usual undertaking to hold the goods to the order of t bank, and either the importer deposits satisfactory insuran policies against fire, etc., or the bank arranges the insuran at the cost of the importer. The importer will also, most cases, have to pay the usual charges for warehousing.

Banks sometimes make partial deliveries against parti payment, to enable the importers to take advantage markets, though the system is not much liked by ban and has obvious dangers. In any case the bank on t question of partial delivery has to follow the instructio of the drawer of the bill, that is, the exporter.

Delivery Orders and Transfer Orders.

There is a good deal of misunderstanding on the subje of delivery orders and what are known as transfer orde so a short description may not be out of place in view its interest to importers.

Delivery orders give a title for the actual delivery goods only. The issuer of an order to deliver certain gooc it should be noted, has a legal right to revoke the ord at any time before the actual delivery of the goods h

taken place. It will be plain, therefore, that a banker has full control over goods that are the subject of delivery orders. It is otherwise with transfer orders. The issuer of a transfer order loses control over the goods, and the person to whom he has transferred the goods, once he has received the order, can keep the goods in his own name in store, or he can at any time re-transfer the goods or arrange for actual deliveries with or without reference to the bank.

Once a warehouse-keeper has accepted a transfer order, the transferee is entitled to have his ownership of the goods registered in the books of the warehouse-keeper, and the latter, by accepting the order, makes himself responsible, subject, of course, to his lien for rent and charges and his ordinary conditions, for the number of packages only, but not for specified particulars.

In the case of a delivery order, the holder is entitled to actual delivery of the goods mentioned in the order. But it cannot be too strongly urged that a delivery order does not entitle him to have any part of the goods transferred to his name in the warehouse-keeper's books. Here, again, the warehouse-keeper is responsible for the number of packages only.

We mention these points, as importers are sometimes inclined to gird at what appears to them as the banker's excess of caution in connection with this business.

D/P Bills.

Bills which have attached documents that are not delivered until payment of acceptances are, as we have mentioned elsewhere, known as " D/P " bills. Acceptors of documents on payment bills generally make an effort to retire their bills before due date, if only for the reason that they can the more readily dispose of the goods once the bills are paid. Here, again, the bankers do everything to encourage the importer; they give him the option of retiring his accepted bill under rebate. That is to say, at

any time during the currency of the bill the acceptor may pay the sum for which it is drawn, less a rebate or discount calculated at one-half per cent above the rate of interest allowed by joint-stock banks for short deposits for the time the bill has to run.

For instance, if the rate for short deposits were $2\frac{1}{2}$ per cent per annum, the amount of a bill at ninety days' sight, taken up immediately it was presented, would be subject to a rebate of ninety-three days' interest at $3\frac{1}{2}$ per cent per annum. The bill and documents would at once be handed over, and in the case where the drawee has a chance of a quick sale he can, of course, save himself considerable expense for warehousing and other charges, in addition to having gained the rebate for retiring his bill.

Letters of Credit.

Where possible, the method *par excellence* of financing imports is by drawing drafts under letters of credit. The letter of credit, as the reader will have observed from a perusal of the chapter on exports, has manifold advantages in the finance of imports. The matter is put in a nutshell by one of the banks which says that, so long as a merchant's credit standing is satisfactory, the commercial letter of credit protects the importer; first, because he is provided with a means of purchasing goods from a foreign country on a cash basis without being required to put up actual cash; and, secondly, because the foreign seller, or exporter, does not receive his money until he has surrendered documents showing that the goods ordered have been actually shipped. On the other hand, if the said exporter be in possession of a letter of credit, he knows that when the shipment has been made and the relative documents are received, he can go to his bank and obtain the counter value.

We have referred to the question of "credit standing"; if the banker has had no previous dealings with the importer, or the financial position of that gentleman does

not appear to warrant extended credit facilities, the banker may require the deposit of cash or other security from the importer. If the banker is satisfied with the standing of the importer, he will open the credit merely upon signature of a letter of application, which in itself is in the shape of a guarantee.

The formalities in connection with the issue of a commercial letter of credit have been already explained, but a few further particulars may be summarized as showing the general practice.

We will assume that negotiations as to qualities, price, and quantities of goods, date of shipment, etc., have been settled by a British buyer with a foreign seller, and as the latter demands that the money be available as soon as shipments are ready, the importer will make application to his bank for a letter of credit to cover drafts representing the value of the goods. The importer being a man of good standing, the bank we will assume agrees to issue a letter of credit. If time presses, the bank may arrange to have the terms of the credit cabled out to its branch or correspondent abroad, and the latter will issue what is in effect a duplicate of the credit to the exporter. As a matter of fact, under present conditions, the particulars of most credits are summarized and cabled in this way, so that delays entailed through forwarding letters of credit by mail may be eliminated. In all these cases the importer will sign the bank's usual form of guarantee or application for a credit.

Import credits, like export credits, may be confirmed or unconfirmed.

Procedure on Importing.

When the buyer has received notice of the issue of an import credit he, of course, prepares his goods and, when ready for shipment, delivers them to the steamship company in exchange for the usual set of bills of lading. These, together with the consular invoice, the commercial

invoice, and any other documents called for by the credit, are then attached to the bill of exchange, which itself is drawn on the bank which issued the credit. The exporter will then present them to his local bank, who, after seeing that everything is in order, will pay over to him the value of the bill. This bank in turn forwards the complete set of documents to its branch or correspondent in the import city. Frequently, it will be the same bank that issued the credit, and sometimes not; in any case, the bill is ultimately presented to the issuing bank, which will accept the bill, return it to the presenting bank, and then receive the documents of title to the goods.

The next step is for the bank to advise the importer of the receipt of the documents, and also inform him of the date of the maturity of the bill. When the steamer carrying the merchandise arrives, the bank will arrange to take delivery of the merchandise itself, or else allow the importer to receive the goods on the undertaking by him that proceeds of the goods as sold will be paid in to the bank in liquidation of the acceptance, in any case not less than, say, one clear day before the maturity of the bill of exchange which the banker has accepted.

During the period between the arrival of the shipment and the maturity of the bill, it is often advantageous for the importer to sell the goods or (in the case of raw material) to transfer them to factories for manufacture into finished articles. This enables the importer to obtain the funds necessary to meet his obligation, and most banks are willing nowadays to grant accommodation if their own interests at the same time can be adequately protected.

Trust Receipts.

Where it has been decided to allow the importer to deal with goods direct, the ocean bill of lading and other documents necessary to the release of the consignment from the shipping and customs authorities are delivered

to the importer, who in return signs what is termed a trust receipt. This document at one time was perhaps more in vogue in the United States and in the Far East than in London; at the present time the system of utilizing trust receipts is growing in England. Actually, the trust receipt specifies fully the purpose for which the shipping documents have been surrendered in accordance with the arrangements agreed upon, such as warehousing, delivery to an actual or prospective buyer, or for manufacture, or disposal in the ordinary course of business. The trust receipt is supposed to give the bank direct control over the goods or the proceeds of their sale; whether it really does so in all cases is a moot point. In any case, the degree to which the control is exercised largely depends upon the responsibility of the person signing the receipt, while the character of the merchandise is, of course, taken largely into consideration. Nevertheless, it is one of the terms of the trust receipt that the client undertakes to pay over to the banker the proceeds of the goods as sold, but not later than the maturity of the bill.

As America is usually understood to be the home of the trust receipt, let us see what one of the writers in that country has to say on the subject.

Of this celebrated, and more or less useful kind of document, he remarks, the form varies greatly but the purport is always the same. The importer acknowledges having received, say, a hundred bales of wool from the A B Bank and agrees to hold the said wool in trust for them, and as their property, with liberty to sell the same for their account, and in case of such sale to hand the proceeds over to the bank. Most trust receipts, then, contain a sort of waiver of rights, in which the importer states that the A B Bank may at any time cancel the trust and take possession of the goods, or of the proceeds of such of the goods as may have been sold, wherever the said goods or proceeds may then be found. Further, that in the event of any failure, suspension or assignment for the benefit of

creditors, all obligations, whether due at the time or not, shall at once mature and become payable.

A large volume, says the author in question, could be written on the subject of trust receipts and the litigation which has grown out of the attempt to enforce them, but the whole sum and substance of it all would be that the trust receipt is just about as good as the party who signs it and no more. Bankers who hand over the documents on trust receipt (and an immense volume of business is so handled in various countries), do it almost entirely on the standing and credit of the party receiving the goods, and scarcely seem to give thought to the possibilities of ear-marking and recovering the merchandise or its proceeds in the event of failure or default on the part of the importer. The gentleman whose remarks we have paraphrased also considers that the rating of the importer has not as much to do with the banker's being willing to let him have the documents against trust receipt as might perhaps be imagined. But the experience of the present author is that the bankers do nowadays carefully weigh the pros and cons of the importer's financial standing, his probity and general character. However, it is agreed that many firms of known large resources have trouble in getting banks to let them have the documents of title to goods against trust receipt, whereas many firms, whose resources are admittedly nowhere as large, have no trouble at all. The importer's business, and particularly the way in which he runs his business, is what counts. What it comes to is very much the same as though the importer were going to the bank and asking for a loan. Just about the same things are taken into consideration.[1]

Usance Bills.

Just as we have seen with exports, the banks are also prepared to open credits calling for the banker's acceptance to usance bills, or term bills, as they are sometimes called.

[1] *Foreign Exchange Explained*, F. Escher; p. 125, *et seq.*

Where a banker gives his own acceptance to such bills, unless satisfactory security be put up, the banker will retain the documents until payment of the amount of the bill is made under rebate, the goods being warehoused on arrival.

Credits providing for bills at three months' sight or more, to be drawn on the importer himself, are also occasionally opened; but are not much in favour with London bankers because, although acceptance and due payment of the bills may be assured under the credit, the bills cannot be negotiated or discounted at so good a discount rate as that ruling for bank bills.

Sterling or Dollar Basis.

British sterling and American dollar credits are the most familiar in these days. Many commodities, such as raw silk from China and Japan, coffee and cocoa from Brazil, and hides from the Argentine, are bought on a sterling or on a dollar basis. That is to say, if the credit is to be for bills on London, it will be expressed in pounds sterling; if on New York, it will be expressed in dollars. Other commodities, such as rubber from the Straits Settlements, furs from Australia, and wool from South Africa, are purchased on a sterling basis, and in such cases the letters of credit are expressed in sterling, and are available for bills drawn on London banks or upon London branches of American banks, where the shipments are, say, to New York. Commodities purchased in other countries of origin, such as tobacco from the Dutch East Indies, wood pulp from Scandinavia, raw silk from Italy, and so on, are often purchased in the money of the country concerned, and the respective letters of credit must then be expressed in the money of that country and be available by bills in that place.

The question for settlement then is, whether or not the buyer should cover himself against any possible depreciation in foreign currencies by making forward contracts, or

otherwise fixing in some way the cost of the merchandise to him. This, by reason of its importance, we shall deal with separately in a later chapter.

The History of a Credit.

We cannot close the present chapter, however, without an attempt to get the reader to appreciate what a wonderfully fine piece of financial machinery is that directed by London. Actually, the Englishman is usually shy of speaking of it, much less of writing about it ; but as we are not here to affect modesty, we may with profit turn to a few remarks on the subject, made by a writer in a book that was prepared for American digestion. They are by an old banking friend of the author, to whom he is indebted for a copy of the book. [1]

The writer in question traces very clearly the history of a credit established in London. Before the Great War, he says, London bankers granted enormous credits throughout the world. These took two forms—acceptances granted under letters of credit, or finance bills—and he gives the following illustration to show the operation of an acceptance under a letter of credit.

When a merchant in Holland, France, the United States or any other country, wished to buy goods in other parts of the globe, he utilized a credit obtained either directly through a London banker or through a banker in his own country. In the latter case, he instructed the foreign merchants from whom he had made his purchases to draw on the London banker at so many months' sight. The case of a tea merchant in New York, Young by name, was given. That gentleman had negotiated with Napier & Co., tea growers in Ceylon, for a consignment of tea. Napier & Co. probably knew little or nothing about the financial standing of Young ; but even had they known it to be

[1] *International Exchange*, by E. L. Stewart Patterson, Superintendent, Eastern Townships Branches, Canadian Bank of Commerce.

excellent, they would not have been willing, or able, to wait for a remittance from New York for the shipment. Much in the same way as we have described in earlier pages, therefore, Young was asked to make the necessary arrangements for a credit to be available in London for the invoice amount of the tea, say, £1,000. Young, in New York, acted on the suggestion—he went to his own bank, the Bank of New York, and asked them to arrange for a credit to be made available in London in favour of Napier & Co. for the drawing of ninety-day bills with documents attached.

The reader should note carefully the procedure.

The Bank of New York, in its turn, instructed its correspondent, Barclays Bank, Ltd., to issue the credit on their account, and as soon as the advice was received, Young was furnished with a letter which he could send to Napier & Co., stating that the credit had been opened in London on the terms set forth. On receipt of the letter Napier & Co., being satisfied with the terms and conditions, prepared the tea for shipment and, as soon as it was placed on board the ship, they received the bills of lading. The next step was for the said firm to draw a bill of exchange at ninety days' sight for £1,000, attach to it the bill of lading, insurance policy for marine risks, invoice, etc., take it to their own bankers, say, the Indian Bank, Colombo, and that bank would purchase the bill from them at the current rate of exchange of the day on London, and hand Napier & Co. the equivalent in rupees. Thus the tea firm, Napier & Co., obtained their money immediately the shipment was ready.

The next step was for the Indian Bank to forward the bill of exchange and relative shipping documents to their own agents in London, the Bank of Goodwill, who in turn, as soon as received, presented it to Barclays Bank, Ltd. Barclays Bank, after being satisfied that everything was in order, accepted the bill and retained the shipping documents. Then this bank forwarded the documents to the Bank of New York, and they were thus enabled to take

delivery of the tea when it arrived in New York, and either store it for their client, Young, or deliver it to him under trust receipt until he finally paid for it.

So much for the actual operation of the letter of credit —but what became of the bill of exchange itself, after acceptance ?

With the name of Barclays Bank on it as an acceptor it became first-class paper—international currency, in effect. Speaking of the position before the Great War, and one is thankful to say it is the same to-day, the banker to whom we are indebted for the history of the transaction, adds : "The accepted bill was saleable in any country of the world, because every country at that time found it necessary to remit constantly to London, and every foreign bank had a London office or a London correspondent." The accepted bill could have been held by the Bank of Goodwill in portfolio until maturity, and at due date the proceeds received from Barclays could have been placed to the credit of the Indian Bank, Colombo ; but by far the usual course would have been for the latter to instruct its London agent, the Bank of Goodwill, to get the acceptance discounted on the London money market, and have the resulting proceeds put to its credit. The accepted bill could also have been remitted by the agent of the Indian Bank to some other foreign centre, to settle accounts there, or for the purpose of laying down funds in the said centre. In either case, the bill would ultimately be returned to London at due date, and would be paid to the holder by Barclays Bank, notwithstanding the fact that in the meantime it might have been sold several times and passed through many hands.

Barclays Bank depended upon the Bank of New York, for whose account it opened the credit, to provide funds to meet the bill at maturity, and would not have issued the credit unless it had had confidence in the Bank of New York. The Bank of New York, in its turn, had confidence in the customer's ability to reimburse it, and naturally

would have taken the necessary steps to ensure that Young would himself provide the funds necessary for transmission to London in time to discharge the obligation.

The complete transaction, or series of transactions, may be summarized—

(*a*) Young, the actual debtor, had the use of £1,000 for three months and yet he himself, had he been asked, would probably have had no little difficulty in naming his actual creditor at any particular moment.

(*b*) Napier & Co., in Colombo, received their money as soon as the tea was delivered on the ship, though as drawers of the bill of exchange, they remain liable as such until it is actually paid.

(*c*) The Indian Bank, Colombo, bought the bill from Napier & Co., and was out of its money only until the bill had reached London, was accepted, discounted, and placed to their credit. The bank, however, it should be noted, makes a profit on the exchange by purchasing the bill in Colombo. The Indian Bank, in turn, remains liable on the bill itself as an endorser, until payment.

(*d*) The Bank of Goodwill advanced no money. It acted merely as agent of the Indian Bank in obtaining acceptance of the bill, selling it in the discount market, and receiving the proceeds for the credit of the Indian Bank. The Bank of Goodwill's name did not appear on the bill—for its services it received a commission.

(*e*) Finally, we come to Barclays Bank. This institution was primarily liable on the bill as acceptor, but as the Bank of New York had to provide funds for payment, Barclays advanced no money on the transaction—here, again, that bank receives a small commission for the use of its name, its credit, so to speak.

In fine, all these parties were interested, directly or indirectly, in the bill of exchange, but not one of them advanced a single penny. It is all somewhat like the old, old query, "Who, then, was the lady?" In other words, the question is, "Who paid for the tea during the ninety days'

currency of the bill?" The answer is: "Those firms which discounted and purchased the bill in the open discount market of London."

Such is a paraphrase of the remarks by an onlooker, who has perceived how a very great part of the trade of the world is financed by London, the international monetary centre of the world; and the reader would do well to ponder over and study the transaction, since by so doing he will realize what an inestimable service the London money market, and British bankers who are the backbone of that market, render to our overseas trade.

CHAPTER VI

FINANCING IN FOREIGN CURRENCIES

WHICH gives the reader an insight into the financing of imports and exports in foreign currencies.

WE arrive at this stage at what is probably the most difficult part of the whole problem of export and import finance. Before the War, when the principal exchanges were comparatively stable, few importers or exporters troubled themselves about exchange fluctuations. They drew bills and were drawn upon in sterling, and bankers were left to tackle the exchange problem. Nowadays we have to deal with an entirely different state of affairs. World trade, like most other things since the War, has altered considerably; competition is keen, and merchants find that they not only have to deal with their foreign clients in terms of their local currencies, but also have to protect themselves against loss by arranging for the purchase and sale of foreign currencies. The bankers have to a great extent made the path as easy as possible, but it is feared that at the present time too many merchants are working in the dark, and do not understand clearly the inner mechanism of foreign exchange finance. We shall, therefore, endeavour to explain in non-technical language how foreign exchange contracts are carried out and, as far as possible, we shall do so by reference to the actual methods adopted by the banks. There is, we venture to say, no surer way of learning foreign exchange finance than by investigating the manner in which the banks themselves do the business.

London bankers themselves recognize this, and most of them have been at considerable pains to explain their actual practice.

The Westminster Bank's Practice.

Let us take the case of the Westminster Bank first. As

we have said, there is a great tendency on the part of foreign merchants to trade in and to demand payment in the money with which they are most familiar, that is, in their own local currency. For instance, a foreign exporter draws a draft with documents attached which he has had negotiated in his own centre, and the bank there, after buying or advancing on the bill, dispatches it to its London agent, say, the Westminster Bank, Ltd. The bill is drawn in foreign currency, and before the Westminster Bank can surrender the documents of title to the shipment, the exact amount of foreign money represented by the bill of exchange must be forthcoming. The problem before the English importer is to purchase a sufficient amount of foreign money to pay for the goods, and, as he will necessarily wish to avoid losses due to exchange fluctuations, it is incumbent upon him to seize the most favourable moment for buying francs, dollars, pesetas, or whatever money it be in which the bill is expressed. If the bill of exchange is drawn in a currency of which the exchange is quoted in foreign units to the pound sterling, the more francs and centimes, dollars and cents, pesetas and centimos he can purchase in exchange for each pound sterling, the better will be the rate for him ; the less of each currency he can obtain the more adverse will be the exchange. Hence the old, old exchange axiom, " High rates are for the buyer, low rates against him."

Now, as the Westminster Bank has been careful to point out, if the currency be a fairly steady one, the importer can, of course, await the arrival of the documents with equanimity and buy his francs, or other currency, at the rate of exchange ruling on the day of presentation of the bill. If, however, the exchange be liable to violent fluctuations—and what exchange is not at the present time ?—and the importer be haunted with the spectre of an exchange moving against him, a way out of the impasse is found for him. He can go to the Westminster Bank, at the time he makes his contract of purchase of the goods,

with the foreign exporter, and arrange with that bank for the purchase of just so much of the foreign currency as will be required to settle the bill, for "forward delivery." Having made the contract with the bank, it does not matter a row of pins to him to what level the exchange has moved by the time the bill is presented to him; he will have to pay only the sterling equivalent at the rate of exchange named in the contract he has made with the bank. The bank alone is concerned with exchange fluctuations and so eliminates the risk for the importer. The bank, of course, covers itself, but that is a question that we need not go into at this stage.

There is no doubt that present-day experience has demonstrated the fact that, when goods are purchased in a foreign currency, it is advisable for the buyer to cover himself by making a forward contract for the necessary exchange, and thus to fix definitely the sterling cost of the merchandise involved. Only by so doing can the importer avoid loss in exchange. It is equally true that if the exchange is left open, and a movement in favour of London occurs by the time the bill of exchange arrives, the importer has a chance of making an additional profit; but an element of risk is ever present, and such chances are best left in the hands of a banker who, owing to the multiplicity of his operations, can safely be left to look after his own skin; he will avoid loss by covering a purchase of foreign exchange by a sale of exchange, and vice versa.

The Guaranty Trust Company.

In this connection a statement by another bank, the Guaranty Trust Co. of New York, is apposite.

Just as the importer is able to protect himself against exchange risks, so can the exporter, who sells goods abroad in terms of foreign money, avoid loss and protect himself by making a forward contract with a bank. In negotiating with a foreign buyer, it is obviously important for the

exporter to ascertain the rate of exchange for the currency in which he wishes to sell, in order that he may fix the most profitable selling price. When the sale is concluded, and the exchange covered at the rate of the day, the exporter is protected and knows what will be the extent of his profit at the time of shipment; he is thus not at the mercy of a fluctuating rate of exchange.

As the Guaranty Trust Co. states, future contracts may be made for delivery at any time during a given month, at buyer's or seller's option respectively, though closer rates can generally be given when delivery during the first or second half of a particular month is specified.

A future contract is a definite agreement between the buyer or seller of exchange and the bank, and all parties have to observe strictly the sanctity of exchange contracts; failure to do so is soon made known on any market, and the merchant would quickly find that there is the utmost difficulty in making contracts in other directions.

Generally speaking, an exchange contract conveys no option privilege, except that sometimes it may be extended or shortened by mutual agreement; but this is a method of operating which most bankers are averse from undertaking.

It is not a question of the bank itself speculating in exchange, since in this business banks seek to eliminate the speculative element, by entering only into such contracts as can be covered immediately by an off-setting sale or purchase. They "marry" a sale with a purchase, and so on.

The rates quoted for forward exchange vary, just like the price of any other commodity, according to supply and demand, and in all the most important currencies there is a regular forward exchange market.

The whole position is summed up by the Guaranty Trust Co. in these words: "The operations of the importer seeking to protect himself by a forward purchase, and of the exporter seeking to protect himself by a forward sale,

are concluded through the banks, which thus act as a clearing house for these operations."

By way of example, we may take the case of an exporter who has quoted a price to a foreign customer, say, in March, for a shipment to be made in the following month. In order to avoid any possibility of loss, he goes to the banker and endeavours to fix the exchange. He says to the banker: "I am going to ship so many packages of woollen goods next April; the bills against them will amount to so much. What rate of exchange will you quote me for delivery in April?" Suppose the shipment be to France, the banker knows he can sell, or has sold, to another client exchange for delivery in April, at say, 74 francs to the £1. He bids the exporter 74.25 francs to the pound sterling for his bills, and the exporter accepts. The banker has really neither taken a risk nor tied up a penny of his funds, and has made 25 centimes profit per pound sterling on the total amount represented by the bills the exporter has contracted to sell him. When the time comes for delivery in April, the exporter hands his bills to the banker, and the latter will pay him sterling at the equivalent of 74.25 francs to the £1, and at the same time deliver his own draft against the other contract at 74 francs to the £1. In other words, the exporter surrenders 74.25 francs to the £1, and the banker under his other contract has only to hand over 74 francs to the £1 to the person who has contracted to buy francs from him.

The Midland Bank.

Now take another bank's explanation. The Midland Bank, Ltd., a year or so ago also gave, in its monthly circular, examples which were said to correspond closely to operations actually undertaken in the ordinary course of international trade. The first case mentioned was that of a London firm which in August, 1923, imported, say, typewriters from the United States, the contract requiring payment in dollars three months later. The buyer was,

it is explained, under the obligation to remit dollars some time within this period. Had dollars been purchased in August, 1923, they could have been secured at \$4.57 for each £1, but had the firm waited for the full time to expire, only \$4.35 to the £1 could have been obtained. If, then, the typewriters had been sold in England at prices based upon the exchange rate ruling at date of shipment, the fall in the rate, assuming the purchase of dollars to have been deferred, would have involved the importers in a loss of nearly 5 per cent; owing to the adverse movement in exchange, a satisfactory profit would possibly have been turned into a smart loss.

In the same circular the bank gave an illustration of what is termed the working of the pence rate in exchange. The reader will remember that, in speaking of foreign units to the pound sterling, we showed that high rates are for the buyer and low rates against him. When dealing with currencies expressed in pence, or shillings and pence, to the foreign unit, the reverse rule holds good—low rates are for us, high rates against us. By way of contrast, the position of a firm having to remit to Brazil between the same two dates was given. The currency of Brazil is in milreis. Had milreis been purchased in August, 1923, they would have cost about 5½d. each, but by waiting until November, 1923, only 4¾d. would need to have been given. In this case the rate moved in favour of London, and the deferment of purchase would have resulted in a gain over and above the normal trading profit, of nearly 14 per cent on what would have been paid had milreis been purchased at the outset. Nevertheless, the movement might very well have gone the other way.

It must not be forgotten that what is a favourable rate to the purchaser, in each of the cases we have outlined, would have been an adverse rate to the seller.

As the Midland Bank says, the risks and chances are no less real in the opposite circumstances of persons or firms in this country who receive payment in foreign

currencies, and they gave an example drawn from the South Wales coal trade, where, in respect of shipments to France, exporters frequently receive francs in payment. Considerable loss might be sustained, or on the other hand a substantial speculative profit made, according to whether the conversion of francs into sterling had been effected immediately or delayed for a short or long period. Thus, francs brought home on 31st January, 1924, could have been exchanged for sterling at the rate of about 92 to the pound sterling; but had the conversion been delayed as long as possible in the hope of an improvement in the rate, and become essential on 19th February, 1924, it could only have been effected at 104. The delay in this particular case would have resulted in a loss of about 11½ per cent on the amount that would have been realized by converting at 92. On the other hand, francs received on 21st January, 1924, and held for ten days, would have enjoyed a substantial appreciation in their sterling equivalent.

As one banker has well said: "As a means of making—or losing—money in the forward exchange business, dealing in contracts for the future delivery of exchange has perhaps no equal." Merchants often speak longingly of the profit made by banks in these operations, and this led yet another banker to remark: "Profit possibilities—why not call it loss possibilities?" All this leads one to the reflection, that the merchant who does not want to convert his trading into a gambling venture would do well not to take chances in the exchange market, since, to refer to the Midland Bank's circular again, the present condition of the exchanges carries with it serious dangers. First, there is the risk of incurring losses of a kind which no trader should be required to bear, and, secondly, the temptation to play for a speculative gain, a type of operation which the vast majority of traders would, or should, prefer scrupulously to avoid. Apart from the dangers, one does most emphatically agree with this bank, that there are disadvantages which lie in the impossibility of forecasting

exchange movements at all accurately, and in the difficulty of making quotations for goods in the course of the supplying of which the trader will be subject to exchange risks.

A few more important points given by the Midland Bank are worth quoting.

Forward exchange operations have, we are told, grown up in answer to the special requirements brought about by the unstable monetary conditions already outlined. To the question: "What, in the absence of such facilities, would have been the position?" the bank replies: In the first place, the suggestion might be made that the volume of transactions in terms of foreign money would be diminished. One has to remember, however, that the larger part of British foreign trade, as well as a considerable proportion of trade which never touches our ports, is already on a sterling basis. Further, inasmuch as the terms of each individual contract are a matter for negotiation, probably there is not much scope for the transfer of risks in this manner. Indeed, were it possible at all, the risk would merely be shifted on to the foreign customers, and, from the point of view of international trade generally, would not represent in any sense a step towards repairing the world's severely dislocated economic machinery.

Secondly, one might suggest that persons having commitments in foreign monetary standards should purchase the required currency immediately the liability came into existence. Plainly, however, this is not feasible, since it would amount practically to the introduction of a cash basis for all business transacted in foreign money. Under modern conditions, credit must be called in to grease the wheels of international no less than of domestic trade.

Forward exchange, then, overcomes all these objections, and so long as there is no default on contracts made by those who buy from and sell to the banks, the business is as satisfactory and presents difficulties no greater than any other banking transaction does.

Experience of an Exchange Banker.

A further example may be given to make the working of this exchange business plain. This time, we will draw from the experience of an exchange banker.[1]

The said banker received a visit from the representative in London of a large Belgian steel works, who informed the banker that his firm had obtained an order for the supply of £700,000–£800,000 worth of steel rails to an Argentine street railway. The rails were contracted to be shipped from Antwerp to Buenos Ayres at the rate of £100,000 per month, the first shipment to be delivered in three months' time at Buenos Ayres, subsequent shipments to be made each month until the order was completed. Under the contract of sale, it was laid down that payment was to be made in New York by the representative of the tramway company there, on receipt of cable advice from Buenos Ayres that the rails had arrived.

The problem put to the exchange banker to solve was this: The rails were to be invoiced in American dollars, and payment made in that currency; but the Belgian steel firm naturally wanted, not U.S. dollars, but francs to be available in Antwerp and Brussels. In working out the cost of the rails for sale, the Belgian firm had calculated on the basis of the ruling franc quotation between Belgium and London and of dollars with New York, and had estimated that they had a sufficiently ample margin to cover most contingencies. The doubtful question was the exchange. The first payment was not due to be made for three months, and the whole of the payments were really to be spread over a year. The dollar sterling quotation was about 4·55 to the £1, and the franc quotation 74; should the dollar move, say, to 4·80, the company stood to lose nearly 7 per cent on exchange. The banker was asked what he could suggest.

"As I understand the position," he said, "you will deliver to me in New York about 3,000,000 dollars, at the

[1] Given in the *British Trade Review*, September, 1923.

rate of about 400,000 dollars per month, commencing three months hence, and what you really need is for my bank to pay to your firm in Antwerp or Brussels in francs as soon as the dollars are available to my bank in New York. Well, if you will make a contract to deliver these dollars in New York on or about the times stated, I can promise to buy them, the first payment at 4·58 to the £1, that being 3 points over to-day's rate, and I can take each subsequent delivery at 1 point higher. Further, I will make the amount available to you in Brussels or Antwerp, the first at 73·25, and each succeeding payment per month at 20 centimes lower. This means that your 'loss' on to-day's rates of exchange is covered by under 4 per cent and near 3 per cent."

After some discussion, the order was concluded on that basis.

It may be of interest to see how the exchange banker carries out the transaction. He first gets busy with the telephones, and asks his Continental broker at what price there are sellers of Belgian francs for delivery in three months' time, and subsequent months. He finds, perhaps, that for five of his client's dates there are sellers at prices varying from $\frac{1}{2}$ to $\frac{1}{8}$ of a centime more than the rate at which he has sold to the Belgian firm, and he concludes these deals for the first half of the respective months, "buyer's option," so that he has some margin for taking up and paying for the francs in case there be a slight delay in his receipt of the dollars in New York.

The next step is for the banker to sell dollars for the forward dates upon which they will be paid into his account in New York. He does this in a corresponding manner, or possibly he can match or marry some of the payments against the demand for dollars on or about the dates in question from other customers. For example, a day or so previously, another client may have wanted a million dollars to be available in New York, delivery six months hence, and, in default of supplies, the bank's

dealer had to leave the order open; but with the Belgian transaction in hand, he is able to go ahead and settle this other business, and so has satisfied two clients in a manner mutually satisfactory to all parties. The banker's ultimate profit on the Belgian transaction will, of course, be decided on the average rate at which he has been able to cover.

There remains to be considered the vexed question of the difference in "spot" or "ready" exchange and forward exchange. Merchants, when buying or selling foreign currencies, frequently appear aggrieved because a banker cannot quote the same rate on a forward contract as that which is quoted for buying currency on the spot for ready delivery, that is to say, when the forward rate is less favourable to the customer than the "spot" rate. A short explanation may perhaps make this clear, as there are certain definite factors which determine whether a forward rate shall be over or under spot.

The existence of a discount or a premium on spot quotations, as well as the extent, is due, in part, to differences in interest rates on short money (that is, money lent out at short notice) prevailing in the centres concerned. For instance, if the rate for forward dollars is at a discount on the spot exchange rate, the main reason is that the New York money market is paying higher rates of interest on short term loans or deposits than is paid in London. Suppose this rate is at, say, 4 per cent in New York and only 2 per cent per annum in London; it is plain that the tendency will be for bankers in this exchange business to transfer money to New York to earn the higher rate of interest. The banker would transfer his available funds to New York by buying dollars at the "spot" or ready rate, and he can sell forward dollars against "spot" sales. In other words, subject to the ordinary rules of demand and supply, there will be a discount on forward dollar exchange per month at approximately the difference in interest which may be obtained in New York over that earned in London, the market with the lower short loan interest

rate. It does not follow that the difference in interest will exactly correspond with the difference between spot and forward exchange. As we have seen in our examples, a banker covers his forward sales as quickly as possible, and as other bankers and exchange operators will also be covering at the same time, competition to an extent enters into the question. Actually, an exchange operator will bid up for forward exchange to the limit that offers him a sufficient profit on his deal. Then, again, a good deal depends upon whether the sellers or buyers of forward exchange predominate. Let us take another example.

Suppose the short loan interest rates in New York and London be 4 per cent and 2 per cent respectively. In practice a banker could sell forward dollars with safety up to a limit of $\frac{3}{8}$ of a cent per month, or $4\frac{1}{2}$ cents per annum. Imagine the rate of exchange be \$4·50 to the £1, $4\frac{1}{2}$ cents in one year on \$4·50 is equivalent to a rate of 1 per cent per annum. But a banker can get for his money in New York 2 per cent per annum more than in London, so he knows he can safely concede to purchasers of forward exchange 1 per cent per annum by surrendering $\frac{3}{8}$ of a cent per month on the forward rate, and still be left with a net profit of 1 per cent per annum on the transfer of his funds to New York.

If the position be reversed, and interest rates are higher in London than in New York, the exchange banker must have a sufficient margin between the spot and forward exchange rates before he will sell. In this instance, then, instead of there being a discount on forward exchange, there will be a premium. In effect, the discount will be on the spot exchange, and as in selling forward the banker will be "nominally" losing interest by transferring his funds to the market with the lower short loan rate, the discount must make up for the difference.

Finally, we have the case of centres in which there is no highly organized market in short money. Such markets are on relatively the same footing as those in which interest

rates are particularly low. Therefore, as the Midland Bank says, on this basis alone, forward exchange quotations on undeveloped financial centres will always tend to move to a premium in terms of sterling, even though London at the moment be a comparatively unprofitable centre for short term loans.

A banker operating in exchange has always to take into account the greater or less safety he has in holding balances in a foreign centre. If there are any special risks, political or otherwise; if a nation has instituted some form of exchange control which has for effect the difficulty in moving balances out of the country, and if the foreign country has an unstable monetary standard, the tendency will always be for the quotation for forward exchange to move to a premium over spot. Finally, when the dangers become so acute that the risks exceed those which a banker may legitimately undertake, then, as the Midland Bank points out, forward exchange operations are reduced to a minimum and the market, in fact, shrivels into non-existence.

However, in most cases bankers are ready with a solution to the problems as they arise, and just how they manage the finance of traders' operations will be explained in our next chapter.

CHAPTER VII

UNITED KINGDOM IMPORTS AND EXPORTS

PARTICULAR trades require particular treatment. The reader is here introduced to the customary financing of imports to and exports from the United Kingdom.

WE propose in the present chapter to discuss the manner in which the movement of some of our chief imports and exports is financed. Let us first of all take some of our principal exports from South Wales.

The Finance of Coal, Etc.

Coal and tin-plates (both boxed and in bars) are the principal exports from South Wales. Anthracite coal is exported to France, Spain, Italy, Egypt, and also to Canada. In this particular commodity the principal method of doing the business is on cash terms, i.e. cash against documents. With large steam and other coal, extended credit has frequently to be granted. Shipments are made to France, Spain, Italy, Norway, Sweden, and Egypt. The Norwegian and Swedish importers almost invariably open credits in favour of the British exporters, and these credits provide for cash to be paid by a bank against delivery of the usual set of documents. Great care is taken to see that documents are in strict conformity with the terms of the credit. In the case of shipments to France, Spain, and Italy, documents are forwarded attached to a bill of exchange, usually drawn at 90 days' sight. The various banks assisting in this finance of coal have slightly different ways of doing the business, though, generally speaking, the final result is the same.

In the first place, exporters are always kept fully informed of the standing of foreign importers, but even where the report on the importer is quite satisfactory, in view of the risks attaching to the business, the tendency of banks is

to recommend the exporters to insist on the bills not only being accepted promptly by the importers when presented, but also that payment at due date is guaranteed by an approved bank at the importer's point. Backed by the guarantee of a satisfactory banking institution, the English banks will readily discount the bills at better rates than if a guarantee of acceptance be not forthcoming.

Most English banks will advance up to 80 per cent of the amount of bills of exchange against coal, the 20 per cent balance being retained against possible contingencies. The principles of prudent banking make this rule imperative. The point is, that British banks cannot accept liability for the disposal of a cargo; that is the exporter's job, and, much as some exporters dislike the care with which bankers handle coal finance, it will readily be recognized that no bankers should be called upon to shoulder a liability which is really that of the exporter. In effect, the banker says: "We will do all we can to facilitate the financing of your exports, but the selling of the coal is entirely your affair." The reader will, we think, readily recognize that the banker's first duty is to his depositors, and he cannot lightly risk their money.

With Italy there is an additional way of dealing with coal which is peculiar to that country. The importer accepts a 90 days' sight bill drawn by the exporter, and also deposits, in the name of the British bank that negotiates the bill on this side, the equivalent value in Italian lire with a bank mutually satisfactory to both parties. This deposit of lire bears interest at an agreed rate, and is immediately released to the importer as soon as the negotiating English bank gives permission. Needless to say, instructions for releasing the deposit of lire are not given until the bill is paid by the Italian importer.

An important provision in the contract for this Italian business is one regarding exchange: it is to the effect that if the rate of exchange should vary considerably during the tenour of the bill, that is to say, if it moves adversely

to England, a further deposit of Italian lire must be made with the Italian bank for account of the British bank.

Sometimes the deposit of lire is not insisted on; but in that case a particular Italian bank endorses the bills of exchange *per avallo*; this is a Continental practice, whereby the payment of a bill is guaranteed by the signature of a third party on the bill. According to Art. 275 of the Italian Commercial Code, if it is not stated on whose behalf the *aval* (i.e. guarantee) is given, then it is presumed to be given on behalf of the acceptor; if the bill be not accepted, it is held to have been given on behalf of the drawer. In English law, a person, not being the holder of a bill of exchange, who backs it with his signature, is held not strictly to have endorsed the bill, but all the same, he is held to have incurred the liabilities of an endorser. The endorsement or guarantee is known as an *aval*. It is fairly clear, then, that, in both Italian and English law, a person endorsing a bill *per avallo* engages that on due presentment it shall be accepted and paid according to its tenor.

We want to make it quite clear to the reader that British banks finance shipments as such. In effect, what they do is to provide the money against the security of the bill of exchange and attached documents, which are regarded as collateral; from which it will be seen that the advance is made on the joint security of drawer and drawee, backed by the relative shipping documents, plus sometimes the addition of a lire deposit, and plus, in the case of Italy, the guarantee of a second bank.

Apart from this, the banks frequently provide funds by means of overdrafts in current accounts; here again, against the deposit of approved security or satisfactory guarantees both from the exporter and from third parties.

In most cases the terms of shipment from Wales call for payment in sterling, and when documents are sent abroad the British banks' agent is required to remit the sterling amount of the invoice. In such cases, of course, the

question of forward exchange contracts does not arise. When, however, payment has to be made in the currency of the importing country, it is necessary for the exporter to make a contract for the sale of lire, pesetas, kroner, or whatever currency is concerned. The rate is usually a few points above the "spot" exchange; for instance, if "spot" pesetas be 33·87, the forward rate would be, say, 34·47, or thereabouts, the actual forward rate depending a good deal on the prevailing tendency of exchange.

Traders in South Wales, again, are assisted in the finance of imports, but where a bank puts up a sum of money for this purpose, the importer is required to be ready with suitable guarantees, or be prepared to deposit approved security. It is not a practice for banks to find a man the whole of the money for financing imports; the banks argue, rightly enough, that the importer should be able to carry his part of the burden, and in this respect the writer calls to mind one banker's reply to the suggestion that it was a banker's duty to find funds for a client: "We do not set out to run a man's business, but only to help him."

Tin.

Tin is an expensive commodity to finance and, as imports run into substantial figures, the business is financed on special lines. Tin dealings are principally in the hands of large firms, and to these the banks make advances in the shape of overdrafts on current accounts. Suppose an advance has been satisfactorily arranged. When the tin arrives it is warehoused in the name of the bank granting the accommodation. When sales are made, warehouse warrants are handed over; the tin is invoiced, and instructions are given to the buyer to make payment to the bank. The bank credits the amount received to the customer's account, and each payment in, necessarily, reduces the overdraft. Interest on these overdrafts varies, but is usually 1 per cent over Bank Rate, and all charges for warehousing, insurance, etc., are paid by the importer.

Imports from Belgium.

The import trade from Belgium to the United Kingdom is a curious mixture, as the following list will show. First we have window glass, of which large quantities are shipped from Charleroi to England. Then we have a conglomeration of commodities. Iron and steel products are, pig-iron, joists, girders, rails, wire, wire-netting, galvanized wire, sheets, etc., fencing, and iron posts for fencing. These iron and steel products are received mainly from Charleroi, Liège, and Luxemburg, and they are imported by the English manufacturing districts like Birmingham, Middlesbrough, Newport (Mon.), Swansea, Stockton, Darlington, Manchester, Liverpool, and by the Scottish iron and steel centres.

The principal method of finance is by sight or three days' sight documents on payment bills, and those upon whom the bills are drawn, as we have already described, are required to pay the bills before the shipping documents are handed to them. If the bills are not paid by the time the goods arrive, arrangements are made whereby the goods are warehoused by the banks until such times as the importers are ready to pay the bills and take delivery.

As a matter of fact, a large quantity of the iron and steel goods, such as joists, girders, rails, fish-plates, and steel sheets and bars are shipped direct from Antwerp to such British Colonies as India, Africa, and Hongkong; also to Japan. They are usually bought by commission agents in London, who pay the bills and take up the documents. Further finance to the country indicated is then arranged with the Eastern and African banks, frequently by means of documentary credits opened by the importers in the East and elsewhere, authorizing the banks on this side to purchase the bills of the commission agents drawn on the foreign importers. We shall refer to financing of goods to the East later.

An examination of Belgium's export trade reveals in a striking manner the international character of the London

money market. A great deal of the business now passes through the hands of the London joint-stock banks, though the foreign and colonial banks in London also have their share. Typical transactions shown by the books of some of the Belgian banks indicate that goods for all manner of places are financed through London. The following list is instructive—

Goods Financed by London Banks.	*From*	*To*
Leather	Vienna	New York
Shellac	London	Cologne
Iron Nuts	London	Alexandria
Cycle Parts	London	Alexandria
Cocoa Beans	Braila	Antwerp
Salt	London	Denmark
Pearl Beans	Braila	Antwerp
Black Mustard Seed	Braila	Rotterdam
Maize	Braila	Marseilles
Cotton Goods	Manchester	Constantinople
Wood Oil	Hankow	Marseilles
Mustard Seed	Braila	Antwerp

In the import and export business to and from Belgium, sight drafts appear to predominate, though a considerable number of three days' sight bills are drawn. In some cases shipments are also financed by means of 10, 20, 30 days' sight bills, also three months' sight bills.

There appears to be no hard and fast rule in regard to the currency in which bills against general merchandise are drawn. A large number of bills in both francs and sterling pass through the hands of the banks. The phrase "exchange as per endorsement" is no longer much in evidence on bills. When this clause is inserted in a bill it means that the draft must be paid by the acceptor at the rate endorsed on it. It amounts to the shifting of the exchange risk on to the buyer of goods, since the object is to make the bill payable at the endorsed rate. Generally, the drawer attempts to make the banker put the rate on the bill, but nowadays, negotiating banks decline to do so. They will quote the rate, but make the drawer himself endorse it on the bill.

Another phrase, however, is frequently seen; it is:

"Payable at bankers' drawing rate for cheques on (such and such a place)." In this case the bill will have to be paid at the banker's drawing rate for cheques or demand bills on the centre from which the bill emanated, ruling on the day the bill is presented for payment.

Bankers in London remitting sterling bills for collection to their correspondents in Belgium, frequently, one may even say usually, request the correspondent to collect the bills at such a rate as will enable the bank in London to give credit in sterling without loss in exchange. Drafts in francs are sometimes collected and credited in francs, so that the banker may convert from sterling to francs and vice versa when rates appear favourable.

If no sterling account exists between the London bank and the particular foreign correspondent, and the draft on Belgium is drawn in sterling, the London bank usually secures itself against loss in exchange by requesting cover by a cheque on London. Likewise, franc drafts on London are often covered by cheques on Brussels.

Naturally, losses against exchange fluctuations can be avoided by merchants and others making exchange contracts. In view of the fluctuations in Belgian exchange, bankers often insist upon the deposit of a margin on exchange contracts. When the margin is received, it is credited to the firm paying it, in what is called a "Margin Account." For instance, say the margin was paid in November, 1925, and the currency taken up in December, the Margin Account would appear somewhat like this in the banker's books—

A B & Co.—MARGIN ACCOUNT

1925.		£	1925.		£
Dec. 1.	To Contract .	20	Nov. 1.	By Remittance .	20

As will be seen, on the date on which the francs were taken up, the firm's account is debited with the amount of the margin, and, in the bank's Foreign Exchange Account, the proper amount would be credited. The merchant would, of course, also pay the balance due on the contract.

Merchants, in their discussions on ways and means of financing imports and exports with bankers, are often puzzled over what one trader described as the "ramifications" in finance. The tendency in England, this gentleman observed, appears to be to finance on short terms, that is, by means of bills with a relatively short currency. Possibly, the following examples of what we might call mixed finance of imports and exports, will make the business clearer to those in a similar quandary to that of our merchant friend. We will take the finance of the trade with Morocco and British West Africa, since there is nothing like variety to revive interest which has become jaded.

Finance of Trade with Morocco and British West Africa.

MOROCCO. In connection with outward shipments of goods to Morocco, the usual practice is to draw bills at short usance, but occasionally drafts are seen at 60 or 90 days' sight, where importers are of first-class standing. Sometimes letters of credit are opened for imports into Morocco; these are principally in connection with tea shipments from Shanghai, China; motor cars from the United States of America; and various goods from England. As a matter of fact, although at one time London had a big share in the tea business with Morocco, very little tea for that country now passes through the London market. The practice during recent years is to import direct from Shanghai, although the finance is frequently arranged through London.

A large trade in cotton goods is done between Morocco and Manchester, and these shipments are financed by the exporters drawing drafts on their customers in Morocco, but some of the principal Fez merchants have their own representatives in Manchester, who arrange the finance for their shipments with Manchester banks and ship the goods direct to their principals in Fez. In connection with these

latter shipments, the goods, we may say, are usually invoiced in sterling, and, on arrival in Fez, the merchants there make a practice, wherever possible, of selling on a sterling basis and of purchasing their sterling for remittance to Manchester as and when the relative goods are sold. Merchants in Morocco sometimes pay for goods on arrival (if the exchange is unfavourable at the time) by depositing francs with one of the local banks and obtaining a sterling advance against the francs; then, as the goods are sold, they buy the sterling and thus release the equivalent in francs deposited as security for the overdraft.

Trade between Manchester and Fez is of very old standing, and the principal Moorish merchants in the latter town are of high standing and of great business integrity and capacity.

The export trade in grain and seeds to England from Morocco used to be important at one time, but has fallen off considerably during recent years. It is interesting to note, however, that large shipments of eggs are made to the London market during the season.

Morocco exports large quantities of barley, wheat, and various classes of seeds to the Continent and to Algeria, and British firms interested in these cereals might well pay more attention to this market.

West Africa. The export and import trade between West Africa and Great Britain is conducted principally by British firms who have their headquarters in London, Liverpool, and Manchester, and their own houses on the West African Coast.

The financing of exports from England by the principal firms is not, as a rule, done on the basis of documentary bills. Firms at home make shipments to their houses in West Africa, who sell usually for cash and remit the proceeds to England by means of telegraphic remittances, or by the purchase of products for import into the United Kingdom and elsewhere.

Similarly, the export trade from West Africa, which

consists mainly of cocoa, palm kernels, palm oil, groundnuts, hides and skins, is carried on by the same firms who are engaged in the import trade, and shipments from West Africa to Europe and America are financed in West Africa by the banks there upon the instructions of the firms at home, who arrange the necessary credits.

The West African Colonies also export tin, manganese, gold, and mahogany. These exports are financed by means of bank credits by companies and fairly large firms, who, as a rule, deal exclusively with these commodities.

Fortunately, there is no question of exchange in the ordinary sense of the word in connection with the British West African Colonies, as the currency there is special West African coinage, which is controlled by the West African Currency Board in London, from whom the banks are able to obtain supplies of currency to meet their demands on the basis of a fixed rate of commission.

The West African pound is exactly the same in value as the pound sterling, and transfers between England and Africa in both directions are effected upon a commission basis, which fluctuates very little, in spite of seasonal activity.

Morocco—A Merchant's Finance.

We close with a further illustration of the finance of Moroccan trade, this time furnished by one of the merchants concerned. It is useful as showing both sides of the business.

The practice of this merchant is to draw bills in sterling and at sight for the value of the goods shipped from England. The bills of exchange, with shipping documents attached, are handed to a London bank for collection. These bills are sent to Morocco, and the bank there has authority, if the Moroccan importer desires to take up the goods at once, and thinks that the exchange may be more favourable later, to hand over the documents of title to the goods against the deposit of francs for the equivalent

value of the bill, plus a percentage to allow for possible depreciation in exchange.

Lest it should not be clear why, if the bill is at sight, the drawee should wish to deposit the equivalent in francs, we may point out what is, to use the merchant's expression, the true inwardness of the transaction. The bill is in sterling, so it is in sterling it has to be paid. If the merchant therefore feels that he would do better by waiting, he deposits the actual number of francs required to buy the necessary amount of sterling as represented by the bill at the rate of the day, plus the margin we have mentioned. If exchange, perchance, moves adversely to the drawee, the bank has the right to convert at any time if a satisfactory margin is not maintained. The francs remain on deposit for an agreed period, one, two, or three months, as the case may be, and at the end of that time the bank has also the right to convert the francs into sterling.

Under this arrangement, it is obvious that the English exporter is out of his money during the time the francs are on deposit, so, he, in his turn, charges his customer, the drawee, interest from the original maturity date of the bill until the date the sterling is actually received.

Forward exchange contracts do not seem to be very general in the Moroccan trade, though it sometimes happens that merchants ship from London, or elsewhere, bales of cloth to test the market. Commission agents in Morocco sell these, telegraphing advice of any sales of importance to the exporter, who is informed of the amount of money (francs) the agent is remitting by mail. The merchants, in such cases, frequently sell francs to arrive, if the state of the exchange makes that step advisable.

CHAPTER VIII

THE FINANCING OF TRADE WITH CENTRAL AND SOUTH AMERICA

THE principal difficulty with which traders are faced in dealing with the Central and South American Republics is that of exchange fluctuations. Most of the countries concerned have nominally a gold standard, but with a plentiful supply of paper money, often practically inconvertible, the monetary units in several instances are much depreciated; so much so, in fact, that merchants are frequently nervous about making shipments. However, in practice, the requirements of traders are well cared for by the banks and their interests are thoroughly well protected.

It is of importance to note that the various exchange quotations of the different republics on other places closely follow the two great money markets of the world—London and New York. As a general guide it may be said that the exchange quotations ruling in Central and Northern parts of South America, viz., the three important republics of Colombia, Ecuador, and Venezuela, are more directly under the influence of the New York exchange than any others, while those in other parts of South America are mainly affected by the exchanges of London more than elsewhere.

The peso or dollar is the principal monetary unit, and as markets have really to deal with two currencies—gold and paper—special signs are used to distinguish the one from the other, that is to say, to indicate whether payment is to be made in gold or in paper. For instance, the gold peso is usually distinguished by the dollar sign ($) followed by the letters "O/S," which means, *oro sellado*, or coined gold. Paper money, or local currency, is indicated by

"$, m/n," the interpretation of which is, dollars *moneda nacional* (local currency).

Exchange Control.

Attempts from time to time have been made to deal with the monetary situation by the imposition of one form or another of exchange control. Ecuador, for instance, has instituted a somewhat rigid form of control which frequently makes the financing of exports a difficult matter. The purchaser of a draft in connection with commercial transactions is required to declare in writing the purpose of his transaction, and is bound to commit himself to return the value of the draft against delivery of the relative documents should the proposed business not be carried out. Further, those who obtain from the Government the right to negotiate foreign drafts are compelled to file in the Treasury department a weekly report stating in detail all the transactions effected. The said report must contain an itemized list of all operations covering the purchase or sale of bills, the exact amount of each of them, the names and addresses of the buyers as well as the sellers, the origin of the negotiated drafts, the manner in which the money will be invested, the balance existing at the end of each week, and various other details.

It will be readily agreed that the operations of both bankers and merchants are rendered extremely difficult under such conditions.

Trade with Ecuador.

Reference to Ecuador is a reminder that trade with that country has undergone a curious change of recent years. The export trade has been affected by competition with one of our Colonies—West Africa. A few years ago, Ecuador found that West Africa was a keen competitor with her for the country's principal produce, cocoa. Some 25 years ago, the quantity of cocoa produced in British West Africa was negligible, but to-day she has undoubtedly

ousted Ecuador from pride of place, and British West Africa is now the chief source of supply. So rapidly has the West African trade in this product advanced that she competes seriously with Ecuador in what was formerly that country's chief article of export to the United Kingdom and the Continent. In fact, at present, Ecuador cannot compete with British West Africa, in the matter either of price or of promptness of supply. Rapidity in, and a reasonable cost of, transport are of necessity the chief factors in the business, while a stable exchange is of great importance. West African exchange is very satisfactorily maintained and fluctuations are reduced to a minimum. It is otherwise with Ecuador. Then cocoa arrives much more speedily from British West Africa, and the freight on the African supply is very much lower than on cocoa from Ecuador. Not only has the Central American cocoa to bear a considerably higher freight charge owing to the greater distance from Europe, but the comparatively heavy Panama Canal dues are also a serious factor in the price. Ecuadorian trade with the United Kingdom and Europe has thus fallen away badly, and Ecuador has had to find other and more profitable markets. Not unnaturally, she has turned to the United States, and the bulk of her shipments are now reaching San Francisco from Guayaquil.

Possibly, the popularity of the American dollar has also had something to do with the change in the location of trade. The United States dollar is a very old token coin, which has always found ready acceptance with traders and the public generally throughout Central America. Further, as they all use the decimal system, it is comparatively easy for the native traders to make their calculations from, say, sucrés to American dollars instead of having to convert into sterling. As it is, at the present time, practically all the Central American States, which for all practical purposes include those republics South of Mexico as far as the Panama Canal, and the three Northern Republics of South America—namely, Colombia, Ecuador,

and Venezuela, readily work exchange with the U.S.A. dollar. In fact, it is not too much to say that all their currencies are more or less based on that monetary unit, with the exception of Venezuela, which bases its currency on the franc exchange.

The U.S.A. and Central and South American Trade.

The United States of America commenced to nurse the Central and South American trade during the early years of the Great War, and after. As she found to her cost, it was not all plain sailing. To repeat the outspoken comment of one of the American bankers, referred to on page 7, it was said in the United States, when Europe was precipitated into the Great War, that America was to be the leader in world trade; it was set out with some particularity that the trade of South America was to be hers. One would have been led to believe, said the banker in question, that all the United States had to do was to go down to South America and get something for nothing, which, prior to the War, the European nations had been getting for nothing. The fact that any man who engaged in a business different from the business that he was already in would necessarily be required to expend a portion of his capital, or his labour, or his time, in the new business, and risk that capital, or labour, or time, in the new business, seemed for a moment to have been dropped out of sight. The result is that the United States of America has bought several hundred millions of dollars' worth of experience in South American trade, and we should hope and pray that it has been a good investment!

However true a picture that may be of imports into South America, it is certain that practically all the native produce of the Central and South American countries finds a ready market in the U.S.A., and the finance of the principal crops in recent years has been done mainly on the basis of the American dollar rate of exchange. As far

as the export trade is concerned, it may be said that the tendency now is to rely more and more upon the U.S.A. for trade. Apart from cocoa, the Americans are taking a prominent part in the coffee trade with the various Central American States. This product, as we have said, is shipped in large quantities to San Francisco; and, as evidence of the importance the U.S.A. is attaching to the development of trade with Central America, it may be said that several of the large American houses have lately developed a tendency to take a controlling interest in the coffee plantations of Central as well as of South America.

These remarks are rather a diversion from our main theme, but the desire of the writer is to draw attention of British traders not only to new markets, but to the loss of the old, in the hope that more attention may be paid to trade opportunities. The point is, that if England drops out of the export trade from those countries, which to her is, of course, the import trade, her own export trade must inevitably suffer. It is an old axiom that exports pay for imports, and the trade between the Central American States and the U.S.A. affords a striking example of that saying. A large mercantile business is now developing between the various countries, and America is sending growing quantities of textiles to Central and South America as an offset to her imports of cocoa and coffee. We refrain from statistics, but the fact remains that the U.S.A. merchants are cutting into the textile trade of the United Kingdom, and, to a certain extent, the Central Americans find the U.S.A. products cheaper, cost of transport being so very much less than from England.

Venezuela.

Still, let us turn to a brighter aspect of this trade. We may take Venezuela. That country apparently still finds it profitable to export a good deal of her native products to the United Kingdom and the Continent, and, certainly, Venezuela seems less under the influence of the

U.S.A. than are the other neighbouring republics. S also imports large quantities of textiles from England, a many of her merchants now pay regular visits to tl country for the purpose of buying our manufactur Others have established agencies on this side for the sar purpose. It behoves English traders, then, to do all th can to foster this business with the Venezuelans and ensure that America does not capture that market in t same way as she has done elsewhere.

A Few Words of Advice.

A few words of advice may be given concerning tradi operations with Central America. Markets there are adm tedly difficult, and the British pioneers in the trade m perhaps be pardoned for turning away from trade aft experiencing losses, which, however, the writer maintai are due really to want of care and foresight, and negle to consult bankers before entering into trading ventur It is always as well, before orders are executed or co signments made, for traders to find out whether the pr spective importer of British produce and manufactures known to one of the banks established in Central a South America. If the buyer is known to the bank, a is a man of good repute, it is not a difficult matter obtain advances on the usual basis against the relati documents covering shipments.

That trade with the countries in question is wor fostering is evident from the extensive operations that a now taking place with the European continent. Most the ex-enemy countries, as well as the Scandinavian a some of the Latin countries, except, perhaps, France a Italy, appear to be cultivating active trade relations wi Central and South America. Generally speaking, th draw their bills of exchange in American dollars, and t proceeds received in Central America are then remitted New York, either for account of the Continental ban that negotiate the bills, or for the account of the remitt

Bills of exchange drawn on Central America are seldom drawn for longer periods than 90 days' sight. Nearly all documentary bills for textiles are drawn at a usance of from 30 to 90 days, but sometimes it is the practice to draw drafts in a series, consisting of 30, 60, and 90 days' sight bills. Occasionally bills at a longer date are drawn, but this is only where a client has been established for a number of years.

The Anglo-South American Bank.

As we have shown, neglect to observe a few elementary rules and to consult the bankers connected with Central and South America, has often meant ultimate loss to traders. There are various banks in London which are actively engaged in the finance of trade with Central and South America, and we are indebted to one of them, the Anglo-South American Bank, for the following particulars, which are of importance to those who contemplate taking up the question of either selling their goods to or of buying produce and manufactures from the countries in question.

Except where *special terms* have been arranged for *exceptional* business, advances by the Anglo-South American Bank against approved documentary bills are made, after signature of the bank's letter of hypothecation, on the following terms—

CASH ADVANCES. Interest 1 per cent over Bank of England rate, with a minimum of 5 per cent per annum.

ADVANCES BY ACCEPTANCE. Commission for accepting the drawer's 90 days' sight draft on the bank is subject to arrangement.

DISCOUNT on return remittances is chargeable at the open market rate.

COLLECTING COMMISSION varies according to the place on which the bill is drawn; it varies from 1 per cent down to $\frac{3}{8}$ per cent.

All bills are received for collection subject to the conditions given on pages 98 and 99.

1. Exchange Clauses. All bills on places in South and Central America must show the town from which drawn, and bear one or other of the following exchange clauses—

"Payable in currency at the selling rate of exchange of the collecting bank on the day of payment for sight drafts on London."

"Payable in currency at the selling rate of exchange of the collecting bank on the day of payment for 90 days' sight drafts on London."

"Payable in currency at the selling rate of exchange of the collecting bank on the day of payment for telegraphic transfers on London, plus cost of cable."

Sterling bills on Brazil, Chile, Peru, and Bolivia are usually payable at the 90 days' sight rate of exchange, and should not be drawn payable at the sight rate or telegraphic transfer rate unless previously so arranged with the drawee. If no exchange clause is inserted, remittances in payment of bills on the above-mentioned countries will probably be made by 90 days' sight drafts. If payment is tendered other than in cash, the remittance so tendered may be received and forwarded at the client's risk.

2. Collection of Charges. The bank will not be responsible for the collection of charges over and above the amount for which bills are drawn. If the collection of such charges involves friction with the drawee of a bill, the face amount only of the bill will be collected and charges deducted from the proceeds. Certain of the bank's correspondents refuse to endeavour to collect charges under any circumstances.

3. Documents accompanying bills of exchange will be surrendered against acceptance unless the bills are drawn at sight, on demand, or on presentation. The Anglo-South American Bank will not receive bills for collection at a usance, with instructions to deliver against payment, as this is contrary to the custom prevailing in South and Central America.

4. Bills of Lading should be drawn in sets of four for

Chile and at least three for other places, and should be made out to " order," or, if the original bills of lading are being sent direct to the bank's branch by the steamer carrying the goods—to the order of the bank for account of " A B " (the consignee). Bills of lading handed to the bank must not be made out to the order of drawees or consignees in the country of destination, as this may lead, in the event of the goods being refused, to special difficulties for which the bank and its correspondents cannot accept responsibility.

5. CARE OF GOODS COVERED BY DOCUMENTS. In case of need the bank's branches and correspondents will, when possible, warehouse goods and insure them against fire, but neither the bank nor its correspondents assume any responsibility for any loss or prejudice owing to an omission to do so. If insurance is desired against risks other than fire, this must be arranged for in England.

6. INSURANCE POLICIES or certificates are sent out with the other documents in the absence of instructions to the contrary. When such policies or certificates are handed to the bank in duplicate and are payable abroad, the original policy will be sent out, the duplicate being retained in London. If the policy is payable in London, the duplicate will be sent out and the original retained in London.

7. CLEAN BILLS (i.e. bills without documents attached). As it is customary in South and Central America to delay acceptance or payment of bills until the arrival of the relative goods, clients should advise the bank, for the guidance of its branches or correspondents, of the name of the steamer carrying the goods, or, if these have been sent by parcels post, the postal receipts should be attached, or the numbers of the parcels, office of posting, and date should be advised to the bank.

8. PARCELS POST. The Anglo-South American Bank states that the collection of the amount of bills covering parcels sent to the care of its correspondents is made subject to any conditions which they may see fit to impose.

The bank is unable to permit parcels to be addressed to its Buenos Ayres or Mexico City branches in any circumstances. Further, owing to the excessive amount of trouble involved, parcels may be addressed to other branches of the bank, only subject to the following conditions—

1. The sole duty of the bank will be to issue to persons honouring drafts a letter authorizing the postal authorities to deliver what, to the best of the bank's branches' knowledge and belief, are the corresponding packages.

2. The bank will not be responsible for delays or wrong deliveries, irrespective of how occasioned.

3. Refused parcels will remain in the hands of the postal authorities *uninsured* by the bank and without responsibility on its part.

4. The bank will not be asked to obtain certificates attesting the non-arrival of parcels.

5. An extra commission will be charged commensurate with any trouble involved.

One of the principal difficulties in this parcels post business is that, in many cases, the various packages of any particular consignment do not all arrive at the same time. After a certain period, warehouse charges are made by the postal authorities on those received but not taken up. Where the regulations of the country of import require it, care must be taken to supply the necessary consular invoice.

PROTESTING OF BILLS OF EXCHANGE. If instructions are given to the bank to protest bills, this is understood to mean protest for non-payment after acceptance. If protest is desired for non-acceptance, or for non-payment of a sight or demand bill, specific instructions to this effect must be given, and can be complied with only if not contrary to local custom.

DRAWERS' AGENTS. It is essential to the prompt settlement of difficulties that there should be a resident agent or representative to whom reference can be made in case of need. In order to avoid possible friction and expense,

customers are asked to advise the bank fully as to the extent of such agent's authority.

The following further points are also of interest—

ADDRESS OF DRAWEES. In order to avoid delay in presentation, or confusion owing to similarity of names, the full address of the drawee should be shown on bills or invoices. This is absolutely essential in the case of bills for collection on large towns, such as Buenos Ayres.

DOCUMENTARY BILLS FOR COLLECTION ON BUENOS AYRES. Goods for Buenos Ayres are subject to a fine of 2 per cent if the relative documents are not produced within eight days of the carrying steamer's arrival, whether docked or not. If feasible, therefore, the certificate of origin and original bill of lading should be sent direct to the bank's branch, per the steamer carrying the goods. When the original documents are sent direct and are received by the bank prior to the receipt of the relative bill of exchange or instructions through the bank, it frequently happens that the goods have to be declared by the bank in its own name, thus causing additional expense. In order to avoid this, and also any contingent liability for duties or storage in Customs in the exceptional case of drawees not clearing the goods, even after taking up the documents, the bank suggests that exporters should either hand them the relative bills and invoices in sufficient time for the first of exchange to be posted by them per the carrying steamer, or should advise the branch of the bank in the letter covering the original documents that have been sent direct, the name and address of the consignee who is eventually to take delivery of the goods. The bank can then advise the consignee so that he may make, if he wish, the necessary declaration in the customs. The bank strongly recommends, however, that the former method be adopted ; that is, if the documents themselves cannot be handed to the bank in time, the bills and relative invoices should be sent to the bank sufficiently early for the first of exchange to be posted per the carrying steamer, it being obvious that this

may result in the drawer obtaining the proceeds more speedily, as the bank's foreign branch can attach the documents (which have been addressed to them direct) to the draft which would reach them through the London office by the same steamer.

As far as Venezuela is concerned, it should be noted that experience of the bank has shown that the only satisfactory method of dealing with goods consigned to Venezuela is to send the shipping documents direct to the consignee and to draw the relative bill of exchange " clean."

These are the principal points connected with the finance of trade with Central and South America, and, as the reader will have observed, considerable care has to be taken in dealing with places in those countries. But the banks will be found only too willing to assist traders wishing to enter markets in that part of the world, and merchants would do well to consult them before commencing business.

CHAPTER IX

THE POSSIBILITIES OF TRADE WITH BRITISH INDIA

INDIA is an interesting and a profitable country with which to trade, and, in view of the chances for extension of markets, it is one which deserves the closest attention of British merchants and traders. The country has a long trade history—peculiarly British, and, as some of England's competitors have said, the sentiment for British trade has been established only through the superiority of goods or styles or familiarity with the market.

The East India Company.

Our trade with India dates more particularly from the time when the success of the enterprising old Dutch merchants in Java led London merchants to adventure their means and resources in the formation of the East India Company. That body started in 1559 with but a modest capital of £72,000; its title was "The Governor and Company of Merchants of London, Trading into the East Indies." The company was started in 1559, and a year later was granted a Royal Charter from Queen Elizabeth, which gave it the privilege of trading during fifteen years to all parts of Asia, Africa, and America, beyond the Cape of Good Hope, eastward to the Straits of Magellan, except such countries or parts as might be in the actual possession of any Christian princes in amity with the Queen. It was an ambitious project, and in its early years the company had a very fine monopoly; it was granted (1) the right to make by-laws regulating its business and the people in its employ consistent with the laws of the realm; (2) exemption from export duties for the first four voyages; (3) the right to export silver coin to the amount of £6,000, provided a like amount was

imported within six months; and (4) all other subjects of the Queen were forbidden to trade in the territory assigned to the company.

At the expiration of fifteen years, if the trade was found to be beneficial to the realm, the letters patent were to be renewed for another fifteen years, and so on. Unauthorized interlopers were liable to forfeiture of ships and cargoes.

The early voyages of the company, from 1601 to 1612, were separate voyages; that is to say, the subscribers individually bore the cost of each voyage and reaped the whole of the profit, which, we are told, seldom fell below 100 per cent. After 1612, the voyages were conducted on the joint-stock system for the benefit of the company as a whole. Disputes, engineered by competitors, naturally occurred, but the company went on increasing its sphere and its influence. James I, sensible of the profitable nature of the company's business, granted subsidiary licences to private traders. However, this did not prevent him, in 1609, from renewing the company's charter "for ever," with the proviso that it might be revoked on three years' notice if the trade should not prove profitable to the realm.

Later we find sorry disputes occurring between the East India Company and the Dutch traders, who claimed prior rights to trade in the Far East, and despite various attempts at conciliation, the friction culminated in 1623 with the "Massacre of Amboyna," where a Dutch Governor tortured and executed the English residents on a charge of conspiring to seize the fort. We need not go into the history of the troublous times that followed; it will suffice to say that the ultimate result was that the English company tacitly admitted the Dutch claim to a monopoly of trade in the Far East, and henceforth confined its operations to the mainland of India and the adjoining countries.

An interesting sidelight into the useful effects which may result from the extension of overseas trade is seen in the early endeavours of the East India company to improve

its position. In 1609, the company found that good ships were a vital necessity, so it constructed its own dockyard at Deptford, from which, as an old writer observes, dates the "increase of great ships in England." In fact, down to the middle of the nineteenth century, the famous "East Indiamen" held unquestioned prominence among the merchant vessels of the world.

The company had a good many ups and downs before it consolidated its position and secured a complete monopoly; at one time it had to compete with a more or less successful rival called the "Assada Merchants" Company, which had been granted a royal licence to trade with Bengal, on the ground, apparently, that the East India Company had neglected English interests. The methods of the Assada Company, however, were such that their influence did not last long, and, to jump over a long period, in 1657 Cromwell renewed the Charter of 1609 to the East India Company, with the proviso that Indian trade should be in the hands of a single joint-stock company. So the tale goes on under various British sovereigns; rivals came and went; impecunious monarchs utilized the renewals of charters as a means for exacting funds and loans from the company. As time went on, it became a very powerful concern; so long as it was content to trade, affairs went fairly well; but the greater the power the more dangerous the abuse, and abuses undoubtedly crept in, especially when, in course of time, the company and its officials became so dominant a power in India, that it finally ceased to be a purely trading concern and exercised administrative functions. Such a position was its undoing, and, to use the concluding words of the article on the subject in the *Encyclopaedia Britannica*, this position could not, in the nature of things, be permanent, and the great cataclysm of the Indian Mutiny was followed by the entire transference of Indian administration from the company to the Crown, on the 2nd August, 1858.

Whatever be the faults of the old East India Company,

it served a useful purpose in opening up the trade of the Empire and extending British influence. But it is a mistake to suppose, if anyone does suppose, that the company's activities spelled the last word in the development of our trade with India.

Geographical Facts.

Let the reader envisage the present-day possibilities. The total area of British India is 1,093,074 square miles, and its population some 247,000,000. As the result of administrative changes, carried into effect in 1912, the country is divided into fifteen provinces. The eight principal provinces are: the Presidencies of Madras, Bombay, and Bengal; the United Provinces of Agra and Oudh; the Punjab; Burma; Bihar and Orissa; the Central Provinces and Berar. The minor provinces are: Assam; the North-West Frontier Province; Ajmer-Merwara; Coorg; Baluchistan; Delhi; Andaman and Nicobar Islands.

Such a territory opens up a vast vista, but, as one of the old merchants said: "If you want to trade, study your man." With a teeming population like that of India, the person who wants to enter into trade relations must certainly study the natives with whom he hopes to deal. America has of late years turned her attention to the Indian markets, and in advising traders, one of the American banks has recognized this. The author is indebted to the bank in question (the Irving National Bank) for a copy of the remarks, which read—

Characteristics.

India has certain characteristics which the manufacturer may as well recognize and discount, even while he is engaged in changing them. Unlike the western nations, the Hindu does not believe in the multiplication of wants. Theoretically, at least, men are judged according to their spiritual strength and not according to their possessions and rank. The subordination of materialism to idealism, or mysticism,

has been the foundation of the country's social and industrial organization. In actual practice it has created a low conception of work and slight recognition of the dignity of labour. When the practical incentive is subordinated too completely, the goal becomes too remote to have much interest for the average person.

In India this system has had the effect of making the day labourer averse from continued toil. He lacks a sense of responsibility and does not hestitate to leave a piece of work unfinished because of some grievance, imaginary or real. The resulting shallowness of mind and purpose is something that will be encountered daily by the foreign business man; the sooner he recognizes and accepts it the better he will be able to understand and deal with his customer. This prevailing characteristic, however, is acquired rather than inherent. The native Indian has shown a definite tendency to demand better conditions under which to live and to work. His condition will be improved just as soon as he is in a position to make his demands felt and receive assistance in attaining his desires.

The Importance of Agents.

British banks with branches in India have always urged upon traders the desirability of having agents on the spot to study the requirements of the Indian market. American banks are equally insistent upon the importance of this. The bank to which we have already referred, for instance, urges firms who are preparing to extend their business in India to recognize the radical differences between market requirements on the Bombay side and those on the Calcutta side. The influence of the two religions, Mohammedanism on the one hand, and Buddhism on the other, is very marked, and is a controlling factor in trade. Bombay and Calcutta offer the best opportunities for agencies. Calcutta, being the larger city and the chief port, usually has been given the preference; but in time Bombay will probably become as great a centre because its transportation facilities are better

and it is the principal arrival point for mails. It is just as easy to transport goods by rail from Bombay to Delhi as from Calcutta to Delhi. The bazaars in Bombay distribute for the whole western side, including Afghanistan, Baluchistan, and Tibet. Merchants from Lahore and other cities of the upper North-West Territory come to Bombay regularly or have resident buyers there.

Although the towns specified are the more important ones, there are throughout India other centres in which a large trade is conducted. Even in the interior there are such towns as Agra, Cawnpore, Delhi, Lucknow, and Amritsar, where the merchants do some direct importing, although the majority of the dealers depend upon the importers in the chief ports, to which may be added Karachi, Madras, and Chittagong. The canvassing of such places must be left to the judgment of the local agent or to the traveller who investigates the conditions which affect his particular line of business when he arrives in India.

The best business season is from October to February, when the days are cool and healthful conditions generally prevail. Prospective customers know more definitely what they want, because they know whether the year's crop is a failure or a success.

India is pre-eminently an agricultural country; about 70 per cent of the people are dependent upon the soil. The bulk of the exports, therefore, being raw agricultural produce, it is evident that the economic condition of the country is dependent upon the character of the elements—or, perhaps we ought to say—of the seasons. It is a well-known fact that India possesses a most precarious rainfall, and consequently the approach of the monsoon is always regarded with anxiety, not only by the natives, but also by persons in Europe whose trading connection is with India. The monsoon, we would explain, is the name given to the trade winds which blow in the Indian Ocean and the adjacent parts. From April to October there is a strong

south-west wind, when rain prevails; from October to April, a gentle, dry, north-east breeze. The change, or, as it is called in India, the breaking up of the monsoon, is attended by violent rainstorms. The character of the monsoon, however, varies in different parts of India, and, while each period is viewed with apprehension, it is the amount of the seasonal and total rainfall required which is of most importance. Any failure to obtain the proper amount quickly produces crop shortgage, which very soon results in famine conditions.

The hot weather lasts from April to June, the rains from July to October, and the cool weather from November to March.

In the circumstances, it is apparent that the trading power of India really depends on the success of her crops, and whenever these fail, exports of her raw produce are necessarily much curtailed; there is immediately a diminution in the purchasing power of the people, and a falling off in the value of exports, which, after a brief interval, leads to a greatly decreased demand for imports.

India's Exports and Imports.

It will be convenient at this stage to run over, briefly, the principal items of India's exports and imports; we can then put the reader in possession of the facts regarding the financing of the trade.

The bulk of India's trade is conducted with the United Kingdom, which is also the market for most of the produce shipped from India, though Japan and America have of recent years been keen competitors for the trade.

First, we have *Indian wheat*, which is harvested in March to May, and represents about 10 per cent of the world's supply. As it comes on the European market at a convenient time of the year (July to September), the results of the harvest are closely watched from this side. Great Britain and France are the principal consumers of Indian wheat. Then we have *jute*, which probably ranks in equal

importance with India's wheat exports, and money is required to finance the crop during the rainy season—July to October. The jute industry is of great importance to India, and the amount of manufactured articles from that product is steadily increasing. Next comes *tea*. Tea-growing is one of India's most stable industries and is responsible for the employment of a large number of natives. The United Kingdom is the principal consumer of Indian tea. India also produces a large quantity of *Rice*, and is the largest exporter of rice in the world. The rice production and trade is very carefully handled. It is mostly raised in Lower Burma, and is much less susceptible to seasonal influences than other foodstuffs, since the failure of the rainfall is practically unknown in Burma. The export trade from Burma, however, is affected by conditions in other parts of India. Deficiency in the monsoon at once creates a demand for the Burmese product at rates to which the range of prices in foreign markets for rice does not correspond. The effect is to divert the rice, which would otherwise have been exported from Burma, to other parts of India, and the country, excluding Burma, then becomes to all intents and purposes an importing country.

Raw wool and *raw cotton* also bulk largely in Indian exports. The area of the cotton under cultivation is over 25,000,000 acres, and England is making definite attempts to improve both the yield and the quality by scientific methods, for the crop is small in proportion to the extent of the cultivated area. The cotton season begins in October and the trade continues throughout the closing months of the year. Bombay is the principal export centre, and the continent of Europe and Japan are the chief purchasers.

Oil seeds are produced in large quantities in India and the bulk is exported to Europe, the export season commencing in October, at the close of the jute season. *Hides and skins* are also important articles of export from India.

Now we come to the imports, and here we find the

United Kingdom to be the most important importer into India. Piece goods are the principal in the list of imports, and England is the chief exporter; she holds the bulk of the trade, but Manchester of late years has had to meet increasing competition from Japan and the United States; while Indian mill owners are also gradually perfecting the local products. Textiles, according to recent statistics, represent nearly 50 per cent of the trade of the United Kingdom with India, and are a reliable index of the state of the import trade in the bazaars. There is also a fair trade in *woollen manufactures,* England being the chief participant.

Iron and steel form no inconsiderable part of India's imports, and the trade with England is well maintained and fairly constant. Then we come to *metal manufactures,* and here we find an increasing trade in machinery and mill work, largely for the textile industries. Though England is well to the fore in her exports to India, this class of import into India may be viewed with mixed feelings, for there is no reason to doubt that India, in course of time, will develop manufacturing centres, in which the jute, cotton, wool, and other raw produce raised in India will be turned into the finished product, and in proportion to the increase in her capacity to manufacture for her own internal requirements, so must the demand for England's piece goods and the like diminish.

Imports of *railway plant* and rolling stock show progressive expansion, both on Government and on private account. This testifies to the continued improvement in the economic condition of India, since it is only with the growth of railways that the isolation of distant villages will come to an end. Practically the whole of the trade in railway and rolling stock materials is in the hands of Great Britain, and it is worth while giving every encouragement to this trade, as increased transit facilities in India mean efficient distribution of imported manufactures, and increased trade with our own country.

An Indian Opinion.

Such are some of the principal imports and exports of British India, and, as we have said at the commencement of this chapter, the Indian market is one that merits the attention of British traders. As the opinion of the man on the spot is always worth noting, we close this chapter with a paraphrase of a few remarks from an Indian paper, *The Pioneer*, which, on 19th October, 1925, wrote—

Although the Indian market for imported goods is an enormous one, it is doubtful whether its extent and potentialities are so fully realized by manufacturers as they ought to be. Notwithstanding trade depression and the slackness in purchases resulting from high prices, India imported goods by sea in the year 1924–25 to the value of £185,000,000, of which the share of the United Kingdom, in round figures, was some £100,000,000. That India offers a great field for cotton manufactures is known to all. But her market absorbs an infinite number of imported articles, ranging from machinery, railway plant, agricultural implements and motor cars, to the medicines, soaps, and a vast variety of other goods which are sold not only in European shops but in the Indian bazaars. The bazaar trade is rapidly expanding, since the use of imported articles of many descriptions is increasing among the Indian population.

What is of intense interest at the present time is the vast possibilities of Indian agriculture. Although in the aggregate imports from abroad represent many millions in value, the average purchasing power of the people is low. But a small increase per head in that purchasing power will inevitably bring about a larger demand for imported goods, and it is here, from the point of view of the supplier of the Indian market, that the decision announced by the Secretary of State and the Viceroy in regard to agricultural development assumes immense importance. . . . It is recognized by competent authorities that the addition of many millions of pounds to the annual agricultural output

can readily be accomplished if the efforts now being made by the Agricultural Departments are extended on sound lines, and there is no question as to the results that can be achieved.

Another branch of the activities of the Agricultural Departments is the breeding of cattle. The indigenous cattle of India are of very poor quality, and millions of cultivators are debarred from using modern ploughs as their animals are not strong enough to draw them. The Agricultural Departments are therefore striving to produce good draught bullocks. As *The Pioneer* says, the increase of the wealth of the cultivating classes, when the better class animals take the place of the present inferior types, will be enormous, as it is estimated that at the present time there are about 150,000,000 bovine cattle in India. The demand for modern ploughs would rapidly increase if strong draught animals were available instead of the weak cattle now in general use. The men who are in closest touch with agriculture in India are most optimistic as regards the future. In a recent speech at Simla, Lord Reading declared that: "As I grow older in my service to India, as I learn to understand her problems, as I perceive more keenly the anxieties of India, I come more and more to the conclusion, aided and assisted by those who have the knowledge and experience, that the great industry of India to which India must look for her regeneration is her agriculture; and we must do all we can to further it." The population of British India is 247,000,000, and of India, including the Indian States, 319,000,000. It is not difficult to realize the increase that will be effected in the demand for imported goods as the standard of living of this great population improves. Some of Great Britain's competitors have no illusions on this point, and are straining every nerve to secure a strong commercial foothold in the Indian market.

CHAPTER X

THE FINANCING OF THE TRADE OF INDIA

CUSTOMS declarations are always a source of trial and tribulation to traders, so before dealing with the question of finance, a few words on the subject may not be out of place.

For the guidance of traders, merchants, and shippers, the Department of Statistics in India has set out the following details as the basis for all Customs declarations, and the facts should be carefully noted by those who trade with India and those who contemplate opening up business relations with the country.

Customs Declarations.

Under the Indian Sea Customs Act of 1878, the real value which importers or exporters must declare is defined to be (*a*) the wholesale cash price, less trade discount, for which goods of the like kind and quality are sold, or are capable of being sold, at the time and place of importation or exportation, as the case may be, without any abatement or deduction whatever except (in the case of goods imported) of the amount of the duties payable on the importation thereof; or (*b*) where such price is not ascertainable, the cost at which goods of the like kind and quality could be delivered at such place, without any abatement or deduction except as aforesaid. In short, in the case of articles in which transactions are sufficiently numerous for there to be a recognized wholesale market rate for the article, that price must be given, less the trade discount, and, in the case of imported articles, the duty. The value to be shown for imported articles is not necessarily the cost at which the importer has been able to lay down the goods in India. Imported piece goods, for

example, are ordinarily sold by the importer to large wholesale dealers, who dispose of them in turn in wholesale transactions; and it is the price at which the latter transactions take place which determines the value which should be declared. Where no such wholesale market price is ascertainable, the value will, in ordinary cases, represent the value in the *bona-fide* invoice, *plus* insurance, freight, and landing charges.

Banking in India.

A few years ago, owing to the shortage of banks in India, banking facilities and the financing of trade were not all that could be desired. The business was in the hands of a relatively few institutions, and accommodation was costly. These disabilities, with the extension of banking in India, have to a large extent been removed, and every day sees the task of the trader in the matter of finance made easier. Not only are more banks being opened up in India, but even the London joint-stock banks are extending their influence there—either by having branches in India, or by opening accounts with recognized and influential banking correspondents in India.

There are really four classes of bank doing business with and in India: the Exchange banks, the Imperial Bank of India, the Indian joint-stock banks, and a miscellaneous group of native bankers and brokers. The business of the last three classes is principally concerned with the interior trade, finance, and banking of India, and operations are confined mainly to native banking. Then, as we have said, there are the London joint-stock banks (Lloyds Bank in particular), a few British firms of very old standing—half bankers, half merchants, or, as some put it, a cross between the two—and these, as well as the Indian joint-stock banks, are not confined to India for their financial dealings; they do an ordinary banking business in the country, deal actively in exchange, and all have their quota of export and import finance.

Imperial Bank of India.

The Imperial Bank of India is worthy of notice, since it is destined to play an important part in the future of India. The bank was an outcome of an important development in Indian banking ; it was formed as the result of an amalgamation of the three old Presidency banks—the Bank of Bengal, the Bank of Bombay, and the Bank of Madras. These banks, under an Act passed by the Legislative Council in 1920, were amalgamated on 28th January, 1921, from which date business has been conducted under the title of the " Imperial Bank of India." Under their former regime, the Presidency banks' operations were very restricted ; they were regarded as semi-official institutions, and were essentially " bankers' banks." Under the Presidency Banks Act of 1876 they were precluded from doing foreign exchange business, and from borrowing or taking deposits outside India. They were not permitted to make loans for longer periods than six months, or to advance upon mortgage, or on immovable property, or upon promissory notes bearing less than two independent names, or upon goods, unless the goods or the titles to them were deposited with the banks as security. Under the constitution of the new Imperial Bank of India, these disabilities were to a large extent removed; the bank was empowered to do most of the business which the former Presidency banks were prohibited from doing. The Bank, until 31st March, 1935, acted for the Government, was permitted to have an office in London, and to re-discount bills for the exchange banks and other banks. It was not, generally speaking, a competitor with the other exchange banks for purely exchange business.

To remedy the shortage of banks in India itself, the Imperial Bank was under agreement with the Government to establish and to maintain, within five years of its inception, not fewer than 100 branches, a minimum of one-fourth of which were to be opened at such places as the Government may consider desirable.

Reserve Bank of India.

In 1934 it was considered expedient to constitute a Reserve Bank for India, the object being to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in British India and generally to operate the currency and credit system of the country to its advantage. An Act was therefore passed by the Indian Legislature and received the assent of the Governor-General on 6th March, 1934. Under this Act, the Reserve Board of India commenced operations on 1st April, 1935, when it assumed control of the Government Currency Offices and Public Debt Offices and took over the Public Accounts Departments of the Imperial Bank of India in Bombay, Calcutta, Delhi, Madras and Rangoon. The Reserve Bank has the sole right to issue bank notes in British India.

Elsewhere the Imperial Bank continues to conduct the Government Treasury business as agents of the Reserve Bank of India.

How the Banks Help the Trader.

Now let us see how the banks assist the trader.

The Marwari, or native bankers, are principally concerned with the financing of the inland trade of India; they, so to speak, take their quota of profit before the exchange banks come on the scene. Branches of the European exchange banks, like the Hongkong and Shanghai Banking Corporation, the Chartered Bank of India, the National Bank of India, the Mercantile Bank of India, and the Eastern Bank, are found mainly at the ports. The Marwari bankers operate in the interior, so it is they who finance the crops from the interior to the ports, where the European banks then take over the export finance. The Marwaris are well known to the exchange banks, who make them advances, or fix exchange contracts with them from time to time. In short, it is the Marwari's business to raise funds from the exchange banks on security, and to utilize those funds in the finance of imports and exports

to and from the interior. The Marwari is, in effect, the middleman in Indian trade finance; his rôle is akin to that of the London joint-stock banks, who finance the wares of merchants and manufacturers up to the time of shipment, when the exchange banker comes on the scene.

There are, of course, two sides to the financing of Indian trade—that of the exports.

Imports.

We will take our own imports first, that is, the Indian exports.

As with other countries we have examined, the exporter may obtain payment for his manufactures or produce in one of several ways. He may draw a bill on the British importer and send it direct to London for collection, or he may, if he is a person of good standing and repute, sell the bill to an exchange bank in India; but, in the latter case, especially where there is a series of transactions to be financed, it is preferable to work under one or other of the various forms of credit issued by the banks. These credits we have described in earlier pages, but, as applying to the Far Eastern business, we may say that the most popular form of credit is that known as a documentary credit, which, in effect, is not a credit at all. In the view of most bankers it is merely an authorization by an importer to a banker to make certain advances to the exporter, or, in some cases, to negotiate or to buy the bills, on presentation to the banker of the bills of exchange with complete shipping documents attached. Nevertheless, it is the banker who usually "advises" this credit to the shipper. Let us assume that the importer, after preliminary negotiations with the exporter, has agreed to arrange for one of these so-called credits to be at the disposal of the exporter.

First, the importer will approach the foreign or colonial bank, either in London or abroad, according to which side is shipping, and, having signified his desire to open the credit, he will sign a form as follows—

DOCUMENTARY CREDIT.

No.... .... *Address*....... ....

To the Bank of India, London. *Date* ....

Dear Sirs,

Please open a documentary credit with your bank at Bombay in favour of........*Mr. John Jones*,........of 1 *Blank Street, Bombay*,........... for the sum of £1,000 (*one thousand pounds sterling*),................to be availed of by his draft or drafts on us at a usance not exceeding 90 days after sight. Drafts to be accompanied by shipping documents for the following merchandise, viz. ....

....

In consideration of your Bank at Bombay negotiating such draft or drafts, we hereby engage duly to accept and pay the same at maturity, provided they shall not exceed in the aggregate the sum of *One thousand pounds sterling*, as aforesaid, and provided such draft or drafts be so negotiated within six calendar months from the date hereof, we authorize you to hold the above-mentioned documents against payment of such draft or drafts.

Marine insurance is to be effected by the drawer as customary, but in the event of marine insurance policies not accompanying the said draft or drafts, we hereby engage that marine insurance shall be effected on the shipments to the full value thereof; such insurance to enure for your benefit by the deposit with you of the policies or otherwise to your satisfaction, and in case of default you are at liberty to effect insurance thereon, and we hereby engage to repay you the premia and expenses connected therewith.

(Signed) Abel Smith.

From a consideration of the terms of this form signed by the importer, it will be plain to the reader that this so-called documentary credit involves the acceptance of a bill or bills by third parties, and consequently it negatives any question of the bank itself being the acceptor.

On the assumption that the banker is satisfied with the proposed business, he either cables or sends by mail details of the importer's request to his foreign branch manager who writes to the exporter a letter, something like this—

BANK OF INDIA.
Bombay.

Date........ ... .

John Jones, Esq.,
Bombay.

Dear Sir,

We are instructed by our London branch to purchase, as offered, your documentary bills drawn at 90 days' sight on *Abel Smith*,

London,............ .. to the extent of........*One thousand pounds sterling,* for the invoice cost of............. ....(merchandise) to be shipped to that port.

To your bills must be attached full sets of bills of lading, made out "to order," blank endorsed and marked by the shipping company "freight paid" (bills of lading marked "received for shipment" will not be accepted), together with invoice and policy of insurance, all duly hypothecated to this bank, against payment of your bills.

Please note that this is not to be considered as a BANK CREDIT, and it does not relieve you from the liability usually attaching to the drawer of a bill of exchange, also that it is to be considered to be open for a period not exceeding six months from..... ....

We reserve the right of cancellation upon our giving you notice of our intention so to do.

Yours faithfully,

CD, Manager.

When the exporter receives this notification, it is open to him to accept or to refuse to ship on such terms, but, in practice, a vast amount of business with India is transacted through the medium of these credits.

A good deal of business is also done under bankers' confirmed credits, opened by the joint-stock banks in London and advised through the exchange banks.

It might be well also to point out that export business with India and the East is often financed by the exchange bankers themselves giving their acceptance in London to bills drawn on them by the exporter; we will presently refer to the difference between the two forms of finance.

Suppose an exporter from this side does not avail of any credit and elects to send his bill for collection ; in this case he may draw the bill practically how he likes. The banker does not part with his money until the bill has been paid, consequently he suffers no pecuniary loss, whatever be the ultimate fate of the instrument. Instructions may be given by the exporter to the bank to collect all charges, but the drawer should remember that he is called upon to pay the banker's commission for collection if the bill is not paid. Bills sent to India for collection are

subject to a commission of $\frac{1}{4}$ per cent, and there is a charge of 2s. for postage made on all bills under £100.

Of course, bills, whether drawn under a credit or not, may be clean, that is, unaccompanied by documents; but, as a rule, unless the shippers are very well known to the banks, it is preferable for documents to be attached to the bill as evidence that the bill relates to the goods against which it purports to be drawn.

A word may be said about bills drawn against goods sent by "parcels post." These are really clean bills, whether accompanied by receipt of posting or not. It follows, therefore, that credits which authorize shipments by parcels post are clean credits pure and simple.

Indian import bills, whether drawn under documentary credits or otherwise, are usually drawn on India at three months' sight; there is also a fair proportion of four months' paper drawn, but not many six months' bills are taken. Whenever bankers buy or advance against such bills, it is customary for the drawers to include in them an interest clause, which has the effect of making the bill bear interest at the agreed rate from its date until the approximate date the proceeds reach London. Interest bills are in sterling, but they are payable at the place of acceptance in India in rupees; and the rate of exchange for conversion into this currency, as settled with the exchange bank there, may be either the rate for telegraphic transfers or that for demand bills on London. Some bills are drawn with the clause "payable at the A B Bank's drawing rate for demand bills on London"; while others state: "Payable at the A B Bank's rate for demand bills or telegraphic transfers on London," and sometimes the remittance is made at the one rate, sometimes at the other: it is a matter for settlement between the bank in India and the drawee, the latter generally endeavouring to avail himself of the best rate obtainable. If no rate has been arranged with the bank, the rate charged will be that fixed by the exchange banks in India from day to day.

Interest is usually collected from the Indian acceptor for the estimated period the bank in London is out of its money, and, if the bill is paid before maturity, interest is adjusted accordingly. It occasionally happens that the drawer himself arranges to pay the interest, in which case the London branch of the bank will claim on him in due course on hearing from its Indian branch the actual period for which the advance was carried. In London, when bills are paid before maturity, it is customary to allow a rebate of $\frac{1}{2}$ per cent per annum above the London joint-stock banks' advertised rate of interest for short deposits; in India, the rule is to allow the current rate of rebate as fixed by the exchange banks themselves.

Shipping documents may be surrendered either on acceptance or on payment, according to the instructions given by the drawers of the bills; and in cases where the relative documents of title to the goods are not delivered until the bill is paid, the banks land and store the goods, and take all steps necessary for the protection of the drawer's interest until such time as the acceptor is ready to take up the bill.

The possibility of getting shipments to India financed by means of London bankers' acceptances depends on the standing of the firm, as, obviously, bankers will not lend their names to bills of any but first-class firms. The decision as to whether the banker shall enable the shipper to obtain payment for his produce by advancing funds against interest bills drawn on the Indian importer, or by accepting the bills the shipper draws on the bank, naturally rests with the banker.

The financing of shipments by bankers' acceptances in London is cheaper only when money is easy and fairly plentiful in London; with a high discount rate, there is no advantage to a merchant in obtaining the banker's acceptance to a bill and then to sell it subject to a high discount rate on the London market. With a low discount rate, the position, of course, would be reversed.

Indian Export Bills.

Bills against exports from India to the United Kingdom are drawn principally at three months' sight, though longer usance paper is sometimes negotiated. Both documentary and clean bills are drawn, and Indian exporters (like their European confrères) constantly work under credits arranged from this side. The credits, again, are not always opened by the exchange banks themselves; frequently it is the London banks and finance houses which open the credits and advise them out to India through the exchange banks in the manner we have described in the preceding pages. Bills under the credits are drawn upon and accepted by the banks which have opened them. The documentary credits opened by the exchange banks in India are those sent out by the banks' London offices at the request of the importer here, and in this case it is the British importers who accept the bills.

Perhaps a description of the financing of our exports of textile goods to India will make the working clearer. The British textile business with India is possibly the best organized. One of the oldest methods of dealing is that adopted by some of the larger British firms established in India. For years they have maintained their own offices and warehouses in Manchester, and they act in the dual capacity of shippers from the United Kingdom and distributors in India at all the important piece goods centres.

The usual method of working was recently described by the Indian Trade Commissioner.[1] The European or Indian importer at a leading port obtains his supplies from various Manchester shippers. He goes to one for dhooties; to another for the familiar grey shirtings, jaconets, etc.; to another for fine whites; and to still another for prints and dyed materials. The business is conducted by cabled indents at sterling prices, c.i.f., either for the operator's own account, or, as is frequently the case, for account of

[1] Cf. *Conditions and Prospects of British Trade in India*, by T. M. Ainscough.

his dealers. When the shipment is ready it is financed either under the London acceptance system we have mentioned, or by means of bills drawn at 30, 60, or 90 days' sight, documents against payment or documents against acceptance, as the case may be ; these bills being negotiated by one or other of the Eastern exchange banks in London. The Indian importer sells the goods at a fixed rupee price ex go-down (the Eastern name for a warehouse), on 45 or 60 days' delivery, or whatever is the particular practice of the port to which he ships the goods. His "banian" (or guarantee broker) is responsible for seeing that the goods are taken up at due date, and when, through any cause, such as over-stocked markets, trade depression, etc., the dealer fails to take delivery, the importer not infrequently debits the "banian" with the cost, hands over the documents of title to him, and then the importer's responsibility ceases.

Some of the Manchester shippers favour the development of direct trade with the Indian bazaar dealers. Their practice is to send out a representative to India during the cool season (October to March), fully equipped with samples, terms for shipping, prices, etc. Orders are placed in the bazaar and connections are made with dealers whose financial standing is considered satisfactory by the banks. The goods are subsequently shipped direct, and the bills are negotiated through the exchange banks, who, for their part, are always careful to maintain the drawer's lien over the goods. The bills in this case are usually drawn "documents on payment," but where the financial standing of the drawee warrants it, a departure is sometimes made and the documents delivered against acceptance of the bills. In other cases the exchange bank clears the goods through the Customs, attends to the forwarding by rail to inland centres, takes delivery from the railway, stores the goods in its own go-down, from which it makes deliveries against payment, and, in cases of dispute or claim, otherwise looks after the interests of the shipper.

Exchange.

The question of exchange with India is a vexed one, and is, perhaps, a little intricate to the beginner, so a brief description is advisable. Exchange contracts in India, as in London, are usually negotiated through the intermediary of exchange brokers, though not infrequently dealing is done direct with the banks. It is, however, the broker's business to act as the connecting link between buyers and sellers, and daily visits are made to the banks and to the merchants in connection with this exchange business. Generally speaking, the contracts are based on the undertaking of the exporters who expect to have bills presently available, to sell so many pounds sterling in exchange for rupees at an agreed rate, the bills to be delivered on a specified date, or within a given period, say from one to two months. The particular form exchange is to take depends upon the terms of the contract, which may provide for telegraph transfer payments, demand bills, or three months' sight bills, or a combination of all three, a fixed rate of exchange being laid down for each option. " If, for example, a merchant contracts to sell bills to a bank, it is customary to allow him the option of settling six months' sight, four months' sight, three months' sight, 30 days' sight, or sight bills."[1] The differences between the rates for the various options are settled from time to time by the banks.

A good deal of exchange business in India is done in the form of telegraphic transfers. Importers, for example, may have to remit funds to pay for imports; other parties will require to remit money from time to time from India to London, and all will seek to take advantage of favourable rates of exchange by making contracts before the actual date at which they want to operate, and in selling these telegraphic transfers the banks will generally be willing to grant the buyer the option of taking " on demand " bills at small difference in exchange.

[1] Cf. *The Indian Exchange Problem*, F. V. Rushforth, Calcutta.

Merchants in the Indian business, as in other trades elsewhere, are always on the look out to escape loss through the fluctuations in the exchange. There are the usual differences always apparent between "spot" and "forward" exchange, but it does not always follow that the banks will be willing to enter into forward contracts. The Indian exchange market is not such an extensive one as the London market—fewer banks make for less competition for one thing. At various periods of the year it may not suit the banks to cater for forward business; for example, they may be willing to make contracts for spot deliveries, but at the same time may not wish to enter into forward transactions. As far as the banks are concerned, it all depends upon the state of their exchange account and their cash position at the time of dealing. As a rule, merchants and others in the Indian exchange centres leave nothing to chance, and they will always try to make contracts, for either buying or selling, at the most advantageous rates. In practice, a merchant knows that he will have to make certain payments, say, within the next month or so. The ready or spot market may or may not be favourable at the time; but suppose the market is weak and that he can buy spot exchange at only a comparatively low rate, that is to say, sellers, because the market is weak, will offer him less sterling for his rupees, say 1s. $6\frac{1}{16}$d. per rupee. Through the medium of the brokers he may be able to find that one of the banks will offer him for delivery one month forward, say 1s. $6\frac{1}{8}$d., or 1s. $6\frac{3}{16}$d. If he is of opinion that there is a possibility of exchange moving against him, he will settle the contract somewhere between the two rates.

Operating Against Doubles.

The rates at which the banks will buy or sell are governed to a large extent by the rates at which they can cover their operations, and in this connection reference may be made to the expression "operating against doubles." This

means that the banks, not liking the look of the future of exchange, will take no risks, and for the time being they will buy bills only against cover, or, on the other hand, will sell telegraphic and other remittances only against deliveries of bills. When the exchange market is in this position, it is nearly always because, in the opinion of the banker, there is not sufficient cover available or in sight to provide for the risks involved. At such times the merchant will find that the banks tend to work in unison ; they will not sell remittances to importers unless they can at the same time buy exporters' bills at about the same usance, nor will they purchase export bills unless they can see their way clear to make a fairly quick sale of exchange against them in order to provide the necessary funds. The whole position is really governed by the steadiness or otherwise of exchange. If exchange is fairly stable, the banks will take their chance of being able to cover at profitable rates ; but where rates are fluctuating unduly, the attitude of the banks will be one of considerable caution.

Economic Factors.

Finally, we may say that the economic factors which affect exchange are numerous ; they were summarized admirably by one of the Indian Government officials in a small pamphlet on the subject.[1] He said that, from the point of view of the average person in India, the rate of exchange depends on the relation between exports and imports. Exporters of Indian produce want to obtain rupees for the sterling paid to them in London by the British consignees. Importers of British goods want to obtain sterling to pay to the British consignors. It does not follow that, in actual practice, the exports will go to Britain or the imports emanate from the United Kingdom, but, as far as payment for either is concerned, it is customary to settle exchange in London. Exchange banks

[1] *The Indian Exchange Problem.* F. V. Rushforth. (Oxford University Press.)

may be said to act as a clearing house for exchange; they provide rupees in India for the exporters and sterling in London for the importers. The exporters, therefore, sell their sterling to the banks in exchange for rupees, while the importers pay rupees to the banks in exchange for sterling. In a word, the exporter from India is a seller of sterling, and the importer into India is a buyer of sterling. The former usually sells his sterling in the form of bills of exchange, while the latter buys his sterling in the shape of remittances. It is important to remember, however, that bills and remittances are merely sterling or sterling claims. As the exchange banks are the mechanism by which sterling is transferred from seller to buyer, it is plain that to operate they buy from the exporter and sell to the importer, the price being expressed in so many shillings and pence to the rupee. That being so, the price of sterling, like that of all other commodities, depends on the relation between supply and demand. The greater the supply, the lower the price; the greater the demand, the higher the price. Conversely, the higher the price the greater the supply; the lower the price, the greater the demand. To illustrate what we mean: suppose the supply at any particular time is £1,000 and the demand is £2,000. The banks are forced to put up the price in order to increase the supply and decrease the demand until the two are equal, say at £1,500. The reader will understand that these general principles are subject to slight modifications from time to time, according to local circumstances and peculiarities, but, generally speaking, the fact remains that, when the price of sterling goes up, the rate of exchange does down, and vice versa.

Such, then, are the main factors in Indian trade finance. It is, of course, impossible to describe in a few pages the whole aspect of the question, but sufficient has been said, we think, to show the main principles involved.

CHAPTER XI

THE FINANCING OF TRADE WITH CHINA—WITH SPECIAL REFERENCE TO THE GREAT SILVER QUESTION

MUCH that we have said in regard to the ways and means of financing trade with India is applicable to China, only with China the merchant is sore let and hindered by the exchange question, so, without entering into too technical a description of exchange, it will be well if, at the outset, we give the trader a bird's-eye view of the situation.

"Eastern exchange is silver, and silver is Eastern exchange," once remarked an Eastern banker who had probed deep into the reasons why silver entered so largely into the question of Eastern trade finance. Two countries, Hongkong and China, are now really the only out-and-out adherents to a silver standard, and the merchant who seeks to enter into trade with those countries will do well to try to understand something about this silver problem. Nearly all gold standard countries have fixed rates at which their gold monetary unit is exchangeable into the standard gold units of other countries, and the mint par of exchange, as it is called, forms a convenient basis upon which exchange may be calculated. It is not so with the Far East. Rates of exchange between Hongkong and Shanghai and the gold-using countries are entirely different. There is no exact ratio between gold and silver. The theory of the gold exchanges is that exchange is always hovering between the gold points—that is, between the prices at which gold may be sent to and from gold standard countries in settlement of indebtedness. As regards the relations between the silver standard countries and those on a gold basis, the theory is that exchange is generally tending to the equation between gold at its fixed or mint price and

silver at the London market price. Just why this should be so requires some explanation.

The Importance of Silver.

Silver enters into the daily life of the Chinese as much as any other commodity. The metal is used as a measure of value of commodities, both in internal and in external trade. The Chinaman expects to pay in silver for his purchases, whatever be their gold value in the centres from which they emanate. He also requires payment in silver, no matter what be the gold price of his exports. Further, the Chinese do not view silver as a measure of value in the sense that we view gold. Apart from the exchange between silver and gold, as silver is a commodity, its value rises and falls according to local conditions. If there be a large supply of the metal in one province and a scarcity in another, silver in the first province will appreciate to a degree almost unrealizable in Western countries. The price level of commodities in the place where silver is scarce will depreciate in an even greater ratio. For each occasion that it is profitable to transfer gold from one country to another, it is many times more profitable to move silver from one Chinese province to another.

In the circumstances, there is little wonder that trade in and with China is a complex subject. Besides the problem of buying and selling goods, the merchant has the ever-present anxiety of buying and selling silver. It is this double process in every transaction that so bewilders Western business men, though Eastern exchange bankers have done much to make their path easier. In the West we are used to exchanging goods on the basis of a common measure of value—gold. In the East, to use the words of a Chinaman, " You exchange commodities other than silver with silver as another commodity, which commodity is then exchanged with other goods." Hence the confusion that surrounds the problem of Eastern exchange. Large

profits have been and continue to be made in trade with China, but all too frequently both exporters and importers seem to be drawn into the currency chaos, and all too often their trading ventures become invested with a speculative element.

Of temptations to take risks with silver there are many, and if, in addition to the ordinary chances and changes of markets, a merchant elects to take the more serious risk of exchange, then his operations resolve themselves into gambling transactions, wherein neither expert opinion appears to guide nor caution to protect him. Silver is the rock on which the business of many mercantile houses has come to grief. The moral, then, is for exporters and importers to leave the business of silver and exchange with the exchange bankers, whose job it is to lay down funds for the financing of trade in and with the East.

Western merchants frequently ask why business cannot be simply conducted with the sure and certain knowledge that the requisite number of dollars will be forthcoming. "Why should I be at the mercy of the market in silver? And why should the value of the Hongkong dollar or the Chinese dollar rise when I have to pay in those units and fall when I have sold on a similar basis, simply because silver has fluctuated in price?" asks the merchant.

The chaotic state of Chinese currency is one cause, the variation in the price of silver another. Before the Chinese Revolution and the intermittent strife that has followed it, the silver problem was grave, but China did then seem to be within sight of a unification of her monetary system. By steadily persevering with the minting and introduction of silver dollars of a definite weight and fineness, the Government paved the way to the general taking of money by count and not by weight. Prior to 1933 a great deal of China's business was settled by reference to the tael of silver, approximately equivalent to 1⅓ oz. avoirdupois. The tael was not a coin, but it served both as a measure of

value and a measure of weight, and there were numerou taels in different parts of China. On 1st July, 1933, how ever, China made a great step forward by abolishing th tael and substituting for it the silver dollar on the basi of 100 dollars to 71·50 taels. Even so, China and her trad are still at the mercy of a fluctuating exchange.

The Working of Eastern Exchange.

Just how Eastern exchange is worked may be ver briefly explained. A dealer in China has, we will suppose bought a certain quantity of European goods for £1,000 He has sold them for so many dollars of silver, and he ha to turn those dollars into sterling to pay the Europea merchant. He approaches an exchange banker and inquire how many of his silver dollars the banker will require fo £1,000. A price is quoted, and on that rate depends th greater or less profit the dealer makes. If there be a larg demand in, say, Shanghai for sterling, owing to heav imports, the Chinese will require gold exchange with whicl to pay for their imports, and as demand increases so th value of sterling (gold) rises, and that of silver falls. Witl exports it is the reverse. Exports from China result in th offering of sterling bills on London in exchange for silver, an the larger the sale of sterling bills, the more will silver appre ciate in value. In practice, exchange and trade may b said to react upon each other. The value of Chinese com moidties being expressed in terms of silver, and the valu of most of the commodities imported by China being ir terms of gold or sterling, it is plain that the exchange be- tween gold and silver will tend to vary with the natur and extent of this commerce.

The most important rate of exchange is that betweer Shanghai, the principal monetary centre of China, anc London, and by common consent, as elsewhere in the East it is the rate for telegraphic transfers. Exchange is quotec at so much per Shanghai dollar. If it be 3s., it indicate that for every silver dollar paid to the bank in Shanghai

that bank will pay over in London three-twentieths of a sovereign as soon as the telegram has been received by its London branch.

Silver is therefore the variable factor in Chinese exchange, and since the rate of exchange expresses the equation between two factors, gold and silver, the basic price of one of which is fixed and that of the other variable, it follows that the rate of exchange with China is intimately connected with the fluctuations in the market price of silver.

The main consideration with the banker is necessarily the rate at which he can cover his sales of bills or telegraphic transfers. Ordinarily he can cover by remittance to London of export bills purchased in China. If supply run short, or he cannot cover by dealing with other countries, he has to resort to silver shipments. In practice, the banker will not sell his gold or sterling bills on London at a higher exchange—that is to him a lower silver price—than that at which he can purchase the equivalent quantity of silver elsewhere and import it into China, and that is why he will not buy a merchant's gold or sterling bills at a lower exchange, or higher silver price, than the equivalent quantity of silver would fetch in terms of gold, less cost of exporting the metal for sale in London or elsewhere.

With China, then, the law is that exchange is always tending to the equation between gold at its fixed mint price and silver at the price of the day. Consequently, silver is the primary basis on which rates are fixed, and thus, if the price of silver rise, the value of the Shanghai dollar and that of the Hongkong dollar rise, too ; if silver fall in price, exchange quickly follows suit. In practice, exchange may not follow the fluctuations in silver immediately or exactly ; it may even keep at a respectful distance from the price of the metal ; but sooner or later the one will be seen to be drawing nearer to the other, and so it goes on day in and day out.

Peculiarities of Chinese Trade.

Apart from exchange, there are one or two other peculiarities about the trade of China which are worth bringing to the notice of the reader. The first is the "chop," or trade mark. The commercial machine of China, as a Hongkong writer has well said, is often clogged by mutual suspicion, and it creaks along in the manner of centuries ago—so every person or firm who has an article to sell, and wishes to continue selling that article, distinguishes it by his particular "chop," and in course of time John Chinaman knows that the mark is a guarantee that the article is the genuine thing. It is not only goods that are chopped—every dollar and every piece of silver that passes through a Chinaman's hands is chopped. The Chinese stamp or place their seal on pieces of silver or dollars to guarantee that the money is what it purports to be; in other words, when a Chinaman finds a well-known seal or "chop" on a coin he is sure that it is good. Even notes issued by the principal exchange banks are chopped or marked to show whose hands they have passed through, so that suspicious Chinese may trace or identify them.

Any of the well-known firms trading with China will tell one that they sell their goods on the strength of their chop, and, as Professor Middleton Smith has emphasized, any firm wishful to export goods for consumption among the Chinese should use a "chop." He points out that all the big firms, who have had years of experience, have Chinese names—"Ewo," "Taikoo," and so on. These are the native names of big European firms, who are called by British names like Brown or Robinson in other parts of the world; but in China the Europeans always speak of them as "Taikoo" or "Ewo," so common are the names which were adopted from the Chinese language. "It will therefore be realized that it is a tremendous advantage for new types of goods to be, as it were, introduced into the Chinese market—shall we say chaperoned?—by means of

a well-known 'chop.' Indeed, it is the 'chop' which makes the goodwill of the old-established houses so famous in the Far East. It is, above all else, essential that British goods should maintain the good reputation which they possess; but it must also be remembered that the Chinese look very carefully at every dollar. They do not worry about depreciation, and they are not willing to pay for finish, or what they call 'look-see.' They are really a very conservative nation; in many ways they give up ideas slowly. When once they are used to a 'chop,' they have such a faith in it that it becomes a sign of great intrinsic value."[1]

The other peculiarity to which we wish to refer is "credit." There is very little credit indeed in China, in the sense that the word is interpreted in trade in the United Kingdom. The Chinese dealer in the ports gives absolutely no credit to the out-port merchant, says one of the Chinese writers. Nor does the foreign merchant give credit to the Chinese dealer. The farmer does not sell his produce on credit to the small merchant, so the latter expects in his turn to be paid in cash by the port merchant, while the port merchant, to carry it still further, will deliver cargo to the foreigner only against his cheque, or the actual silver. The real reason for the lack of extended credit is the lack of proper means of communication. In China, the means of communication are exceedingly meagre, despite the increase in the mileage of the railways. Lack of law and order, too, is obviously a serious deterrent. In the circumstances, much of the business has to be done on payment-on-delivery terms, and it is doubtless the want of credit that has prevented the commerce of the country developing to the extent it ought to have done. However, the European banks have done, and are still doing, what they can to fill the void, and, given a period of peace there is no doubt that better means of financing trade would be developed.

[1] *The British in China and Far Eastern Trade.* C A. Middleton Smith. p. 35.

The Comprador.

One way out of the *impasse*, as far as foreigners are concerned, is to work through the comprador. The comprador is a Chinaman of some standing and affluence in the native community. He is a sort of guarantee broker, and is to be found in all the European banks in the East, where he acts as a mediator between the native traders and the banks, and he guarantees each operation brought to the banks through his intermediary—he guarantees bills of exchange, loans, and advances to native clients and dealers, and he, naturally, receives a commission for his services. Of course, sureties are required for the comprador's fidelity, and, in addition, he deposits security with the bank. As far as the mercantile community is concerned, the comprador will frequently be found charging his commission for guaranteeing accounts, and for selling goods, too. The advantage to the foreign merchant is that the comprador knows the native buyers, and he it is who assumes all risks. As a rule, his guarantee is quite safe, failures are few and far between, and most of the compradors are, in addition to being wealthy, men of great probity.

So much for the peculiarities. Now let us turn to the trade itself and the financing of it.

China's Foreign Trade.

China's foreign trade is on a somewhat curious footing; for the most part it is confined to the Treaty Ports, at which are congregated most of the foreign merchants, who carry on their trade with other places—that is to say, with the out-ports and the interior of China—mainly through the intermediary of the comprador. The principal point for trade is via the great Chinese *entrepôt*, Shanghai, which in importance as an Eastern commercial centre vies with Hongkong, as it is the channel through which a large quantity of goods and produce flows into the interior of China. Hongkong itself is the deep-sea port for Southern China, and, as it is a British Crown Colony, does not experience

the same difficulties as Shanghai and the other ports. Trade with Shanghai, is, however, carried on under Treaty arrangements (most favoured nation clause, etc.) with the foreign Powers, which, coupled with the assistance rendered by the European banks, make the way of the foreign trader comparatively easy.

The principal exports from China are generally classified under three main headings—silk, tea, and sundries—business in the latter being summed up in the jargon of merchants as the " muck and truck " trade. Tea, however, at the present time is not such an important export as it was in pre-war days, though efforts are being made to extend the market.

The most important imports are cotton piece goods, of which China imports an immense quantity, Great Britain being the principal supplier. Woollen goods are also imported in fair quantities, and there is an increasing market for many kinds of machinery. Then, if only the country could be purged from the everlasting outbreaks of civil war, and lines of communication be allowed to develop, there would be a great market for all kinds of railway materials. As time goes on, there should also be an increasing market for agricultural implements and machinery, the trade for which at the present moment is of fair importance.

The method of working the piece goods trade is interesting. In some cases shipments are sent as the result of a regular indent business; in other cases the goods are forwarded for sale on the open market; but, in addition, approximately half of the total quantity of piece goods imported is disposed of " under the hammer." It has been the custom for many years for a small group of British firms to hold regular weekly auctions in Shanghai, at which their stocks are sold to the highest bidder. It is a curious business, but one which, in the long run, saves a good deal of trouble, as all sales are on a cash basis, and settlements made accordingly.

Financing of Shipments.

Shipments both to and from China are financed mainly by four months' sight drafts, although a fair proportion of three months' bills is negotiated by the banks. Six months' bills are also sometimes drawn, but this usance is not much favoured by the banks, who do not encourage the drawing of such long term paper. A large proportion of the bills passing through the hands of the banks is drawn under one or other of the forms of credit we have previously described, but the one most commonly used in the trade between the United Kingdom and China is the documentary credit, which has already been fully described in the chapter on Indian trade finance.

Most of the bills in connection with the export trade from the United Kingdom to China are on an interest basis, that is to say, the bills of exchange contain a clause stating the sterling amount is payable at the bank's drawing rate in the East on London for demand bills, together with interest at, say, 6 or 7 per cent per annum added thereto, from the date of the bill to the approximate due date of the arrival of the proceeds in London.

Of course, a shipper, as in the other cases we have mentioned in this book, may elect to send his bills for collection through the bank, and wait for the money until his bills have been paid in the East, the form which the homeward remittance is to take being a matter of arrangement with the banker. Some British exporters are content to await mail remittances, others require telegraphic remittances.

Care should be taken in preparing documents in regard to exports. The bill of exchange itself should be drawn in duplicate, and each copy should be endorsed "pay to the order of the A B Bank."

In most cases it is sufficient for bills of lading to be made out in duplicate, and each copy should be made out "to order" of the shipper, endorsed by him, and stamped "freight paid" by the shipping company.

Insurance policy is also required in duplicate, and most of the Eastern banks require the shipment to be insured for its full value, plus 10 per cent. The insurance policy, as well as the bill of lading, must be sent in attached to the bill of exchange.

A letter of hypothecation is also required, and the particular form issued by the bank through which the bills are negotiated should be used.

With China, as with India, a postage charge of 2s. per bill is made on sterling documentary bills for under £100.

Bills may be drawn "documents on acceptance" or "documents on payment," and in most cases a definite statement to that effect must be put on the bill of exchange. In the case of documents on acceptance bills, once the bill is accepted by the person upon whom it is drawn, the documents of title to the goods are delivered to the acceptor, and the banker's interest in the goods ceases; he has to look to the acceptor for payment of the bill at maturity, and in default of payment, naturally has recourse upon the drawer of the bill.

With the "documents-on-payment" bill the procedure is different. If, on presentation, the importer is not in a position to pay the bill, he merely accepts it and returns it to the banker. The banker then warehouses the goods either in his own warehouse or go-down, or in some neutral storage place, and here they are supposed to remain until the bill is paid. In some cases, however, the banker will have received instructions from the shipper that he may allow the importer to take delivery of a part of the goods against part payment. Such partial deliveries continue until he has sold the whole of the shipment, and, when the last portion is taken away, the banker is supposed to have received the whole amount of the bill. This system of partial deliveries is not without its dangers. It might be very simple if only one bill were drawn; but, where a number of drafts are drawn against various shipments, and a large amount of produce is in the hands, or under

the control, of the banker, the danger is that the acceptor of a bill may pay for and take delivery of only those goods which command a prompt market. It is for the exporter and banker, of course, to take proper precautions, but in days of overstocked markets, or disturbed conditions, the risks are apparent.

Trust Receipt System.

The trust receipt system, which we have mentioned elsewhere in this book, is constantly in operation in China. As we have shown, the trust receipt is simply an undertaking which the acceptor of a documents-on-payment bill in the foreign centre signs in order to obtain delivery of the goods before he has paid the bill. He recognizes the bank's lien on the merchandise and undertakes to sell it, and to pay the proceeds into the bank as soon as received. It is for the drawer of the bill (the exporter) to authorize trust receipt deliveries, and where power is given to the bank to accept trust receipts, the drawer of the bill is fully responsible for payment to the bank should there be any default on the part of the importer.

China's Possibilities.

In the limited space at the disposal of the writer it has not, of course, been possible to describe at length the numerous ways in which trade with China may be financed and carried on, but sufficient, it is hoped, has been said to indicate to the reader the importance of the Chinese market, in which there are still illimitable possibilities. Too much attention need not be paid to the many alarmist reports that constantly appear in the press on affairs Chinese. Admittedly the position is far from satisfactory, but the fact is that China, in spite of the absence of any effective government in many of the provinces, and the constant civil disorder, warfare, brigandage, and piracy, which prevail in many parts, makes a steady, if slow, economic progress.

Quite unaccustomed during the whole of their long history to anything which, from a Western standard, approaches good government, the four hundred millions of the Chinese people—most of them industrious, law-abiding, and, within a certain narrow range, very capable—have learned to carry on their avocations in what to a less hardy people would seem to be quite impossible circumstances. The millions have to live somehow, so somehow they till their soil, maintain a rough and effective village government which goes on whatever dissensions may be raging among the more highly placed, and somehow they get their produce about the country and to and from the Treaty Ports. The Treaty Ports, as we have mentioned, are the places of entry and egress for the foreign trade; they are kept going by the Maritime Customs, with its Foreign Commissioners of Customs, who collect the revenue, support and advise the local officials, and, being in the Chinese service, and yet foreign (with the prestige attaching thereto), are able to serve as a *point d'appui* upon which trade can maintain itself. And so, in spite of much disorder, China goes on, and, in spite of every discouragement, it seems that the national wealth is slowly but surely increasing. The Chinese are a great people, gifted in many ways, but they have not yet emerged sufficiently from the clan system to be able to evolve an efficient government for a large republic. When in the past there has been (relatively) a strong government, it has generally been imposed by foreign conquerors—Mongols, Manchus, etc. Could a good native government be established and civil order be tolerably maintained, so great are the qualities of the people that China would rise to a great place among the nations. But that day is not yet; and until it comes, foreigners of all nations, and notably of the British Empire, must give all the help and sympathy they can, and see, above all, that the Treaty Port system—which makes the foreign trade possible—is maintained.

CHAPTER XII

LOANS AND ADVANCES

THE reading of which will enable the small trader, as well as the large merchant, to appreciate the principles which guide a banker in making Loans and Advances.

WE have of a set purpose placed this chapter near the end of the book. The aim of the writer has been to endeavour to awaken the interest of merchants in the general financing of our overseas trade, and now that readers, we hope, have had their enthusiasm aroused in the possibilities of the great foreign markets, we want to place on record a few of the points that may be said to guide a banker in granting financial accommodation, not only to the large firms, but also to the small men.

The Three "C's" of Credit.

Of credit in foreign trade, as we have seen, there is a great deal, and at the outset we would remind the reader that there are certain fundamental rules to be observed by all parties. An old and valued friend of the author's has placed these somewhat in order of importance. He calls them the Three "C's" of Credit. Judgment of a borrower's willingness and ability to repay his obligations are prime factors always before a banker, and they rest, says the gentleman in question, upon these three "C's" of Credit—Character, Capacity, and Capital. The first, Character, refers to the moral risk, and is related to the debtor's willingness or inclination to meet his obligations, to which we would add, his determination to meet his obligations. The second element, Capacity, is the business risk, and is connected with the borrower's financial and technical ability which will enable him to reimburse his creditors, to which, again, we would add—in the shortest possible time. Capital, the third "C," is also concerned with the ability to repay,

and is the property risk, as evidenced by the amount of resources or assets of the borrower, and upon which he can freely draw.[1]

The relative value of these three factors has been the subject of much keen discussion among both bankers and traders, whether interested in the overseas trade or the home trade. Character has probably a more important place in foreign trade than in home trade, because the reputation possessed by those wishing to participate in foreign trade is of vital importance to a banker when endeavouring to arrive at a decision as to the amount of financial accommodation he will give. Is the man who requires assistance in placing his goods on a foreign market a thoroughly honest fellow? Has he a reputation for observing faithfully the sanctity of contracts, and does he ship reliable goods? These are a few of the points to which the banker has to give careful consideration.

Circulating Capital.

Let us first consider the position of the banker as a lender. His capacity to lend is to a large extent dependent upon the cash resources at his disposal. The major part of a banker's deposits are repayable on demand, or at comparatively short notice. He has to be careful, therefore, to so arrange his loans and advances that they do not in any way result in the locking up of funds. As we have said once or twice in the course of this book, it is not the duty of a banker to supply fixed capital; all he ought to do, all, in fact, it is incumbent upon him to do, is to assist production and trade by placing floating funds at the disposal of borrowers. In a word, it is circulating capital that is required from a banker to grease the wheels of commerce. "Circulating Capital," to use Adam Smith's definition, is that which yields a revenue by circulating or changing hands, while "Fixed Capital" is that which

[1] Cf. *International Trade Finance*, by Dr. Geo. Edwards; p. 204 *et seq.*

yields a revenue without changing masters. However, even in supplying circulating capital a banker has to be careful that his loans do not clash with his deposits. Just as deposits may be regarded as temporary loans to the banker, so should the banker's loans to traders be so placed that they are temporary; the repayments are required to fall due at those periods in which the banker is likely to need funds to meet the calls of depositors upon him.

Duration of Loans.

It is the duration of loans that is so important to the banker; and whether he will make loans for long periods or short terms is dependent very largely upon the liabilities he has running concurrently with his loans and advances. A banker, for instance, whose funds consist mainly of short date deposits, can grant loans for only relatively short periods. This is where the foreign and colonial banks differ somewhat from the home banking institutions. The former, which take a large amount of money in the shape of what are called "fixed deposits," that is, deposits not repayable for six or twelve months, can lend funds for longer periods without undue risk. Most of the loans of the ordinary joint-stock banks, however, will be found to run for not more than from 30 to 90 days, and these banks must, of necessity, be careful to arrange their loans and advances so that the maturity dates coincide fairly evenly with the periods when it is known the heaviest demands from depositors (those who keep current accounts and the like) may arise. In fine, the capacity to pay on demand is what a banker has always to keep in mind, and on this point Walter Bagehot, in his classic treatise *Lombard Street*, was emphatic. He says—

"The main point on which one system of credit differs from another is 'soundness.' Credit means that a certain confidence is given, and a certain trust reposed. Is that trust justified, and is that confidence wise? These are the cardinal questions. To put it more simply—credit is a

set of promises to pay; will those promises be kept? Especially in banking, where the 'liabilities,' or promises to pay, are so large, and the time at which to pay them, if executed, is so short, an instant capacity to meet engagements is the cardinal excellence."

Let the trader who is inclined to gird at a banker's seeming reluctance at lending at all times, then, remember the ever present problem of the banker: "Can I safely lend out so much money without endangering my capacity to pay my depositors on demand?"

Types of Bank Loans.

What are the types of loans made by banks? Broadly speaking, there are four: (*a*) overdrafts in current accounts; (*b*) demand loans; (*c*) time loans; (*d*) call loans. We dismiss the last, as being hardly applicable to foreign trade finance. Each of the others have their separate uses, and some borrowers prefer one kind of loan, while others, generally by force of circumstances, choose another kind. Some loans, again, are governed by custom or the peculiar conditions of markets, whether they be the produce markets, the money markets, or the stock exchange. A brief examination will serve to show their separate uses.

Overdrafts.

A loan by means of an overdraft is simply this: A customer who has a current account at a bank arranges with the banker to allow him to overdraw his current account up to a certain limit of amount and time. The customer is not entitled to draw cheques for an amount over and above that which the banker has agreed to advance in this manner, and he is under obligation to repay it within the given period. Overdrafts are frequently used to finance foreign trade, repayment being made, in the case of imports, when the produce is sold, and, in the case of exports, when payment is received from the foreign importer.

An advance by way of overdraft in current account is,

of course, to be regarded merely as temporary accommodation, and the advantage is that the borrower pays interest only on the actual amount he draws. The first cheque drawn against the overdraft will mean an interest charge at the agreed rate for the whole period the loan is running; the next cheque, assuming that it is drawn at a later date, will mean fewer days' interest charged, and so on in proportion to the drawings. If the overdraft be cleared off within, or before, the given period, the last amount drawn will necessarily carry the smallest interest charge. Security is generally required against an overdraft, and it may consist of produce and manufactures, stocks and shares of a suitable character, or other readily saleable effects, all duly hypothecated to the bank; or again, the security may consist of the guarantee of a third party.

The interest chargeable on overdrafts is usually 1 per cent per annum over Bank of England rate ruling at the time, and should the Bank Rate rise or fall during the currency of the overdraft, interest is adjusted accordingly, though in arranging the terms of an overdraft, most bankers, while requiring 1 per cent over Bank Rate, fix a minimum rate below which they will not adjust the interest. Often the terms are 1 per cent over Bank Rate with a minimum of 5 per cent per annum.

Demand Loans.

Generally speaking, demand loans are not a very satisfactory form of finance for the trader who wants to cater for foreign markets. As their name implies, these loans are payable on demand. The security is often similar to that taken for overdrafts, though frequently it consists of a charge over certain assets owned by the person or firm borrowing. With demand loans it is mutually understood, in the absence of other arrangements, that the banker will not call for repayment at an inconvenient time, or without reasonable notice to the borrower, and often these loans are allowed to run on for lengthy periods. Still, it should

be borne in mind that the banker is perfectly entitled to call in the loan, should he so desire.

Demand loans are generally granted to accommodate borrowers of comparatively high standing who are undertaking some enterprise or transaction, or series of operations, the consummation of which cannot be exactly determined in advance. In such cases, however, an undertaking is generally called for by and given to the banker that regular payments shall be made in reduction of the loan at stated periods. The intention is that the loan shall be merely of a temporary character, and not as permanent working capital for the borrower. Bankers are always careful to see that borrowers, especially where limited companies are concerned, are empowered to borrow the money and to pledge securities or other assets as cover for the loans—that is, to use legal jargon, it is necessary to see whether the borrowers are acting *ultra vires* or *intra vires*. As to security, it may be said that in some cases bankers require a promissory note to cover the whole sum estimated to be required by the borrowers. In the case of a firm, the note necessarily is made jointly and severally by the partners, and, where a company is concerned, by the directors empowered to bind the company. In other cases, the security consists of the guarantee of third persons. Collateral security in one form or another is also often taken.

Time Loans.

Finally, we may take the time loans, which, as their title indicates, are loans for a definite period of time, within which the money must be repaid. These loans may be repaid by instalments so long as the total amount is cleared off by the maturity date ; it just depends upon the arrangements between banker and borrower. In other cases, the loan, by agreement, may be repaid by the borrower at the end of the period for which it is to run. When a time loan is granted for a fixed sum, the whole amount is credited

to the account of the customer forthwith, and he will necessarily have to pay interest from the date the money is put at his disposal. To the foreign trader it is a convenient form of advance, but obviously is the most expensive, much more so, in fact, than a loan in the shape of an overdraft on current account. The class of security required will depend to a large extent upon the banker's greater or less faith in the customer, and the particular class of foreign trade it is designed to cover. Guarantees, various forms of security, collateral, or the hypothecation of shipments are taken—the greater the risk, the greater the security required—and in every case, when dealing with time loans, bankers scrutinize and consider carefully not only the class of business to be financed and the security to be deposited, but the standing and character of the merchant. The three "C's," in fine, are the subject of most searching inquiry.

Security.

In conclusion, a few further words on the general subject of security for loans and advances may be said. As far as the banker is concerned, his first care is to obtain what he terms "liquid security," that is, security which may be easily realized in the event of default by the borrower. Take real property—bankers, while not averse from it, are not too anxious to make it the subject of advances. They like to restrict their loans on real property to small figures, and to safeguard the loan from becoming of too permanent a character. The period for which the money is lent on this type of security is, in the first instance, usually of short duration, and renewals are closely scrutinized and reviewed from time to time. On real property a very ample margin is always insisted on, and the property, especially in the cases of houses and other buildings, is valued by an independent person before the advance is granted. Then there is the question of title to be considered, and although some people claim that landed

property is extremely good security against an advance, prudent bankers refrain from granting such loans until the title deeds have been verified and investigated by the bank's own legal adviser. Real property, however, may be regarded as very useful additional security where an exporter or importer also hypothecates shipments to banks in return for loans.

In the finance of the foreign trade of the country, banks frequently carry comparatively heavy loans on manufactured goods and produce, and what may appear satisfactory security to merchants is not always so viewed by the banks. The banker has to bear many possibilities in mind: he has to keep an eye on markets, values, and trade generally Then, he has not only to be alive to such things as slow realization of stocks, but has also to be prepared for such things as failure or insolvency of the persons or firms who have pledged goods or produce. In such cases, he is often given the unpleasant duty of realizing the security, and on falling markets or deteriorating stocks, the sum realized on forced sales is often less than the advance he has made.

The trader, then, should not be too upset if the banker does not seem eager to make loans for the full value of goods and produce: the documents of title to such are, generally speaking, regarded by bankers as a hazardous form of cover, and, as we have intimated, an ample margin is always required to cover any likely contingencies.

CHAPTER XIII

CREDIT INFORMATION

How the financial standing and business morality of persons and firms are ascertained.

If those operating in foreign markets or seeking to open up trade relations with foreign and colonial centres would only spend a little time in obtaining information, not only of the state of such markets, but also about the standing and reputation of the persons and firms with whom they wish to do business, we should hear of fewer losses and less disastrous failures in the commercial world.

Bankers in the United Kingdom have access to information which it is often impossible for the commercial man to obtain without their aid. They exchange opinions or credit information with other banks at home and abroad very freely, and it is from this frequent interchange of information, much of which is gained only by personal visits between high-placed officials of the various banks, that bankers come to know in fullness of time what particular reliance may be placed upon the various persons with whom banking business is conducted.

This information is especially useful where the overseas trade of the country is concerned, for it enables bankers to form proper estimates as to the amount of accommodation in the matter of bill finance and the like that can be safely given to exporters and importers. It is not too much to say that it is the banker's opinion of the financial standing and his knowledge of the history of a merchant's dealings that largely influence the credit facilities he himself is willing to accord. Further, with his intimate knowledge, he is exceptionally well fitted to advise shippers whether they ought to give permission for documents of title to their goods to be given up on acceptance or on payment,

or whether dealings should be confined strictly to a cash basis. Then he can tell the intending exporter whether the foreign importer is good for fairly large amounts, or whether he is worthy of only moderate credit.

A Bank's Credit Information Department.

To the manufacturer or merchant about to embark in foreign trade, the credit information, or opinion, department of a bank is of the greatest assistance. These departments of the large foreign and colonial banks (and the joint-stock banks) are highly organized, and are in touch with every important market centre in the world. As one of the banks says: "Whether the bank is represented abroad by correspondent banks or by its own branches, the long arm of courtesy and friendly co-operation reaches out to supplement the customer's resources and connections, to solve his problems and to facilitate his undertakings." Information is the only guide to safety, and banks engaged in the finance of foreign trade continue to develop specialists at home and abroad for the purpose of supplying and utilizing such information. From counsel as to the selection of a field of export activity or methods of securing business connections there, the service may extend to advice on adaption of the product to a particular market or specific inquiry into the standing and desirability of certain firms or individuals as local or general representatives.

If, for example, the credit of a Chinese or Indian concern is at all doubtful—and all Far Eastern connections should be scrutinized carefully before they are approved—the foreign credit department brings its information files to bear, or secures a special credit report through its overseas branches or correspondents. From these special reports, and from the analysis of letters regularly exchanged with correspondents, is built up a body of valuable general information which mirrors outstanding conditions in the trades and industries of the various countries.

Apart from market information, the method adopted by the banks in regard to the denizens of markets is to keep extensive card indexes, in which are recorded practically the whole financial history of their clients and of all the principal firms with which commercial dealings are carried on. These cards bear the full name and address of the persons concerned and details of their means. In the case of companies and firms, the capital authorized, subscribed, and paid up is given. If any debentures have been issued, mortgages, etc., raised, these facts are also noted. Where public companies are concerned, the names of the directors, and, in many cases, details of their activities are given, while, with partnerships, similar information is also recorded.

Then follow details of the business carried on, the reputation of the individual or individuals, how they meet their engagements, and, if they have not an account at the bank which dockets the information, the name of the bank or banks with which they keep their account is also mentioned. In the case of bills of exchange, the greater or less promptitude with which drawers, drawees, or indorsers meet their obligations is recorded, and, where exchange contracts have been entered into, a note is made as to whether or not the parties faithfully observe the sanctity of contracts.

The information on these cards is revised frequently, dates being given, and a regular interchange of opinions on persons and firms goes on day in and day out, between bankers, brokers, commercial men, and all who are interested in the trade and finance of the various countries. These files or card indexes are very carefully compiled by men with special experience and aptitude for the work, and the system is growing every day. It is sometimes said that bankers often know more about a man than he does about himself, and the fact that bankers keep such records of persons and firms possibly accounts for the care which many traders take not to do anything to shake the confidence which their bankers have in them.

The Working of the Credit System.

A few words on the working of the system of credit information in practice may be of interest. Of course, where it is a question of giving an opinion on a private customer's standing or respectability, the banker usually has the means ready at hand to guide him in the shape of the client's current account, and so on. With companies and firms or private partnerships, he often has to be guided by details he has been able to collect. In all cases he usually accords to each a certain credit worth. Some persons or firms will be rated as of first-class standing and respectability; others, well, not quite first class; still others of moderate means and standing, and so on, in a descending scale, until he arrives at the class which it is necessary to avoid altogether, or with which transactions should be on a very fully-secured basis. If the banker himself is asked to undertake operations involving sums of any size, or if, for example, he is asked to negotiate an exporter's bills on a foreign importer, he naturally refers to his card index, and from the information there contained will decide whether or not it is safe to grant the accommodation required. If he has not the requisite information, or if he wants to amplify what he has on record, he will immediately apply to another bank, to which he may or may not be referred by the applicant, and that bank, from its own records, will be able to give him the details he needs.

Then suppose the trader requires to make inquiries about persons or firms with whom he desires to take up business. In this case, it is usual for the applicant for information to get his own banker to obtain it from a bank or banks which have branches in the centres concerned. Details on conditions of markets, etc., are, of course, freely given on demand, and traders cannot do better than trust their bankers in these matters.

People often ask why it is bankers should work on these credit lists when there exist firms whose special business

it is to supply information on the commercial history and reputation of persons and firms. The reply is, that the details bankers garner in the course of their business are additional and supplementary to those given by the inquiry agencies. To make his files as complete as possible, the banker himself is a subscriber to and makes full use of such agencies as Seyds, Bradstreets, Dun & Co., Ltd., Stubbs, or the Credit Index, Ltd. These firms have world-wide connections, and, in addition to the day-to-day information which their runners or search clerks pick up, these concerns make periodical issues of confidential opinion lists or rating books, which, of course, are issued to subscribers only.

In the lists issued by inquiry firms a certain credit worth is given to each person or firm named therein. Usually, a sort of rating code or cypher key is given, and by reference to this the subscribers are able to get an approximate idea of the standing to be set against the names given. Bankers do not, as a rule, follow exactly the classification accorded; what they do is to take the information in conjunction with that they have garnered from their own observation or from other sources, and, by a combination of all, they classify the parties according to their own systems. A more stringent valuation of credit-worth is made by the banks. It may be regarded as an excess of caution, but banks have come to know, by long years of trading, how optimistic the people who want to enter into overseas trade relations are apt to be, and if the tendency is to discount it, in the long run, those who are content to be guided by the banker will not go far wrong.

How the Banker Works.

We may conclude this chapter with an example of how the banker works. It is well known to bankers engaged in the finance of foreign trade, that the reports received from some foreign countries are replete with information. Some of them affect to give the history of foreign traders

almost from their birth upwards. The bankers require to " read between the lines." They insist, as far as possible, upon the production of balance sheets, and with these in his hands a banker will pay special attention to the assets and their character. He will take care to distinguish between " quick " assets and those not readily realizable. Goodwill he will reckon as a vanishing asset, which will not be worth very much on a forced liquidation. Plant and machinery, fixtures, patent rights, he well knows are all assets difficult of realization, and however costly their acquisition may have been, the banker will regard them as comparatively useless for turning into immediate cash. Cash in hand, deposits, high-class investments, bills receivable, are regarded as " quick assets " ; stocks, book debts, work in progress, are of secondary importance.

It is the practice of bankers, when summing up a firm's worth, to run through the assets and place them in order of realizability.

When examining liabilities, he will marshal them in order of liquidity, that is, in the order in which they will have to be met, and so by these means he will be able to arrive at a fairly correct estimate of the firm's position and its credit-worth ; though, it should be noted, he does not trust entirely to the facts revealed by the balance sheet. The banker will supplement them by other information which he has been able to obtain.

It has been well said that, in estimating just what reliance may be placed on a firm, a banker should not only be able to bring the balance sheet figures down to the finest hair's breadth of exactness, but should be able to see the facts that walk behind the figures. It is long practice that has given bankers the faculty of seeing through the mass of figures that so often appears before them, and hence they are quick to perceive the direction in which a business is moving.

CHAPTER XIV

THE EXPORT CREDITS GUARANTEE SCHEME, ETC.

How the British Government assists the export trade of the country.

SINCE the War the British Government has done a great deal to encourage and to help exporters to get their shipments financed. Various schemes were tried, and one has reluctantly to admit that, at first, the Government's efforts were not very successful. However, many improvements have from time to time been effected, with the result that during the past nine or ten years the British Government's Export Credits Guarantee Department's guarantees have covered some £84,000,000 worth of exports.

It is just at this time when British exporters are finding it increasingly necessary to accept payment on terms of more or less extended credit that some help is needed, since the exporter has to face a whole host of dangerous possibilities. First and foremost, as the Department points out in its booklet "Credit," there is the possibility that the importer may become insolvent, and what has been regarded as an asset may have to be written down or written off as a bad debt. A crisis in a foreign country may involve every importer there and the effect on the British exporter may be disastrous, however sound his position may otherwise be.

In a desire to help United Kingdom exporters to face these risks, H.M. Government decided to provide through the Export Credits Guarantee Department means for insuring against them. The Department operates as a Department of the Board of Trade, but its organization differs from that of most Government offices, as its daily business is conducted under the guidance of an executive committee of men of affairs whose functions are similar to those of the directors of a commercial company. In the words of the Overseas Trade Acts from which it derives its authority,

its purpose is to "give guarantees in connection with the export of goods wholly or partly produced or manufactured in the United Kingdom." The guarantees are designed to afford protection to exporters against two of the major dangers to which they are exposed.

INSOLVENCY. One of these, and it is the more serious of the two, is the risk that the buyer overseas may become insolvent and thus default on his debt.

TRANSFER OF STERLING. The other risk is one which has been much to the fore in the past few years. It is concerned with the remittance of sterling from overseas countries, an operation often rendered impracticable by embargoes imposed by the governments concerned. Exporters' funds are, as a consequence, locked up abroad. This is the problem of the "frozen debt." The Department is now prepared, under certain conditions, to issue guarantees which will greatly lessen the risk of future losses from this cause.

COMPREHENSIVE GUARANTEE. As the issue of transfer guarantees is confined to holders of the Department's[1] Comprehensive Guarantee, a brief description of that policy follows: Designed to cover the whole overseas trade of an exporter both on bill terms and on open credit, it is issued in two forms, (*a*) with a "first loss" clause whereby the exporter undertakes to carry the risk of losses up to a specified sum, and (*b*) without this restrictive clause. In the latter case the Department undertakes to pay 75 per cent of *all* losses due to insolvency on the part of the exporter's customers overseas. The rate of premium charged in the case of (*b*) is naturally higher than for (*a*), seeing that the Department's range of risk is wider. The Department's liability is limited to a specified maximum, ample for all likely contingencies, and, in practice, never causing difficulties. One of the outstanding advantages of this policy is that its holders are allowed discretion to grant credit (within previously arranged limits) to customers

[1] See Policy F on p. 178 *et seq.*

without first seeking the approval of the Department. It is obvious that where business is offered for immediate acceptance, such liberty of action is of the greatest value.

In the interests of the exporter it is desirable that the guarantees he relies upon shall not be interrupted or suspended automatically when the period of shipment fixed by the policy comes to an end. The period of shipment is usually one of twelve months, but to avoid any break, the Department undertakes that all accounts running at the expiry of that period shall be automatically included without extra charge in the renewal policy for the second twelve months, and so on. In the event of non-renewal, these accounts remain covered for a further year in return for the payment of a moderate charge on unpaid accounts.

Claims based on the insolvency of a debtor overseas are recognized by the Department as soon as the relevant guaranteed debt is admitted as ranking against the insolvent estate by the liquidator or other person responsible for the distribution of the assets. In cases where benefits have been hypothecated to a bank, payment will, of course, be made direct to the bank.

General Transfer Guarantees. These are issued as an [1]Addendum to the Comprehensive Guarantee. The guarantees cover in the first place shipments made during a period of three months from the date of the issue of the cover. This cover is in respect of loss arising from non-remittance of sterling when a buyer, otherwise solvent, is unable to make payment at the due date in that medium owing to restrictions imposed by his government. This is quite distinct from loss by depreciation of foreign currencies—a risk which is not in any way covered. The guarantees are operative if sterling is not available during a period of six months from the due date. Premiums vary from day to day, and in the present uncertain state of world economics, it is impracticable to draw up a fixed list of countries to which the guarantees are applicable.

[1] Cf. Policies D and E, reproduced on pp. 191, 214.

SPECIFIC POLICIES.[1] These are available in those exceptional cases which cannot be covered by the Comprehensive Guarantee. Individual accounts or a small batch of accounts can thus be covered against loss by insolvency. The transfer risk cannot be covered under these policies.

Facilities in the form of guarantees are also available under special conditions in respect of trade with the Union of Soviet Socialist Republics. Exporters of plant and equipment for overseas state or municipal services or private enterprises where payments are extended over a period of one to five years can also cover the credit risk (see Policies G (S. and M.) reproduced on pp. 201, 206, 209).

Specimens of the various policies and ancillary forms at present in use are reproduced in the following pages.

To assist exporters, the Department has also printed a series of explanatory booklets, which may be had on application to the Export Credits Guarantee Department, 9, Clement's Lane, London, E.C.4.

[1] Reproduced on p. 176.

PAYMENT OF PREMIUM ON EXTENSIONS DUE SOLELY TO EXCHANGE RESTRICTIONS

Under the terms of the Bills of Exchange and Open Credit Policies, the Department are concerned only with insuring the credit risk on the buyer and therefore losses due to causes other than the insolvency of the buyer (e.g. exchange restrictions) are not covered by the policy.

Where, however, the buyer has made an irrevocable deposit of local currency equivalent to the full sterling amount of the bill or open account, at the date of maturity, but is not relieved of his liability to make good any differences due to exchange fluctuations between the date of deposit and the date on which sterling becomes available, the Department is prepared—if the Exporter so wishes—to continue its guarantee against the buyer becoming insolvent in the meantime, subject to payment of additional premium for the extended risk, at *one-half* the original rate.

In all other cases, premium at the original rate for the full credit period is payable, if the Exporter wishes to retain the Department's cover until payment is made.

It must be understood that the continuance of the Department's cover beyond the original date of maturity of any guaranteed bill of exchange or open credit is contingent upon the Exporter giving due notification of default in payment, whatever the cause, in accordance with the conditions of the policy.

Where necessary (e.g. in the case of Germany) the Exporter must satisfy himself in each case before shipping goods that the buyer has actually obtained an exchange permit or certificate entitling him to obtain the sterling for the full amount of the shipments at the date upon which payment is to become due. Goods should not be shipped on a mere statement that the necessary exchange certificate or permit will be obtained.

MARCH 1935 (REVISED)

EXPORT CREDITS GUARANTEE DEPARTMENT
9, CLEMENTS LANE, LOMBARD STREET, LONDON, E.C.4

OPEN CREDIT GUARANTEE POLICY

No. D

POLICY made the day of 19 ,

between

who carries on business at

(hereinafter called "the Exporter") of the one part and the Board of Trade acting by the Export Credits Guarantee Department (hereinafter called "the Department") of the other part.

WHEREAS the Exporter has made a Proposal (hereinafter called "the Proposal") that the Department should guarantee payment to the Exporter of part of such loss as he may sustain through the insolvency of certain buyers.

Guarantee.

In consideration of a premium of £ (the receipt of which the Department hereby acknowledge) the Department guarantee to pay to the Exporter per cent of the loss (as defined below) that the Exporter may sustain through the insolvency of any one or more of the buyers named in the schedule hereto (hereinafter referred to as "the buyer") in respect of goods wholly or partly produced or manufactured in the United Kingdom (not being munitions of war) shipped between 193 and 193 and delivered under a contract of sale effected in the normal course of the Exporter's business not earlier than 193 .

CONDITIONS

Customs and exchange regulations, etc.

1. The Exporters shall exercise the same care in granting credit as if the buyers' accounts were not insured and shall at all times satisfy himself that all customs and exchange regulations in force in the respective countries covered by this policy have been complied with so as to entitle the buyer to obtain sterling for the full amount of each shipment at the date upon which payment becomes due.

Limits of credit.

2. Unless otherwise agreed by the Department in writing this policy shall not at any time attach to amounts owing to the Exporter by any buyer in excess of the amount specified in the schedule hereto against the name of the buyer in question nor to any amount for which longer credit has been given than as specified in the said schedule except when such credit has been extended under Condition 3 and the terms of Condition 3 fulfilled.

Declarations.

3. On or before the tenth day of each calendar month, the Exporter will declare to the Department on the approved form the gross invoice value of each and every shipment made during the previous month to which this policy relates with such other information as is required by such approved form.

Extensions.

4. The Exporter may extend a credit originally allowed under this policy in whole or in part for a period not exceeding 90 days, provided—

(*a*) that no information of an adverse nature relative to the buyer in question has been received by the Exporter; and

(*b*) that the Exporter shall immediately notify the Department of every such extension and shall with such notification remit to the Department the proportionate additional premium at the rate of shillings and pence per £100 of the amount extended for every month or part of a month. No extension beyond the said period of 90 days shall be given without the prior approval of the Department in writing.

Notification of default.

5. The Exporter undertakes to notify the Department of the non-payment of any account within 30 days after the due date of payment of such account.

Losses.

6. The liability of the Department shall be limited to the agreed percentage of debt admitted by those responsible for the administration of the affairs of the insolvent buyer in respect of amounts declared and covered by this policy after deduction of all counterclaims (in connection with shipments declared under this policy) and all amounts recovered from the buyer or from any source on behalf of the buyer, and of all amounts received from *del credere* agents.

Insolvency.

7. For the purpose of this policy, a buyer shall be deemed to be insolvent when—

(*a*) he is declared bankrupt; or

(*b*) he has made a valid assignment, composition or other arrangement for the benefit of his creditors generally; or

(*c*) a receiver has been appointed to manage his estate; or

if an incorporated body—

(*d*) an order has been made for compulsory winding-up; or

(*e*) an effective resolution has been passed for voluntary winding-up provided that such resolution is not merely for the purpose of reconstruction; or

(*f*) an arrangement binding on all creditors has been sanctioned by the Court; or

whether incorporated or unincorporated—

(*g*) such conditions exist as are equivalent in effect to any of the foregoing conditions.

8. The Department shall be under no liability in respect of a debt as to which the Exporter has accepted a composition arrangement with the buyer unless the Department's prior approval has been obtained or the composition arrangement is legally binding on all creditors. Compositions.

9. The Exporter shall furnish to the Department such evidence as they may at any time require as to any amount declared under this policy, or as to the origin or shipment or conditions of sale of the goods in respect of which the credit was granted and the Department shall have the right to inspect any of the Exporter's books, documents and correspondence relating to any of the matters aforesaid. Evidence of transactions.

10.—(i) The Proposal and the Declaration thereto shall be incorporated with this policy as the basis thereof and if any of the statements contained in the Proposal or the Declaration be untrue or incorrect in any respect this policy shall be void but the Department shall retain any premium which has been paid. Proposal and subsequent full Disclosure.

(ii) Due performance of each and every undertaking contained herein or in the Proposal or the Declaration thereto shall be a condition precedent to any liability of the Department hereunder.

(iii) If during the currency of this policy the Exporter should receive any information of an adverse nature relative to a buyer, the Exporter will immediately inform the Department and shall not thereafter without their consent declare any further shipments to that buyer.

(iv) If during the course of transit of goods to a buyer it should come to the Exporter's knowledge that such buyer has ceased to pay his debts in the ordinary course of business or cannot pay his debts as they become due the Exporter shall exercise his right to stop the goods in transit unless the Department consents to his refraining from so doing.

11. The Exporter shall take all steps to effect recoveries from the buyer which may be necessary or expedient or which the Department may at any time require and the Department shall have the right at any time to take over any unpaid account and require the Exporter to transfer to the Department all rights therein and any security therefor for the purpose of effecting recoveries in such manner as the Department may consider necessary or desirable. Recoveries.

12. As soon as any debt covered by this policy has been admitted by those responsible for the administration of the affairs of the insolvent buyer or by the Department and the Exporter's full rights therein have been validly transferred to the Department, the Department will immediately pay the full amount of their liability under this policy and will, thereafter, Payment by Department.

pay to the Exporter a share of any amounts recovered from the estate of the buyer in proportion to the respective interests of the Department and the Exporter in the claim in question.

Premium paid in excess.

13. The acceptance of premium on any credit or extension not covered by the terms of this policy does not render the Department liable for any loss in connection with such credit or extension and any premium thus accepted will be credited by the Department to the Exporter.

Exchange risks.

14. For sales invoiced in currencies other than sterling this policy does not cover losses resulting from fluctuations in the exchanges.

False or fraudulent claims.

15. If the Exporter shall make any claim under this policy knowing the same to be false or fraudulent the liability of the Department to the Exporter under this policy shall thereupon cease and the Exporter shall have no claim hereunder and shall repay to the Department on demand all sums paid by them in respect of any credit declared under the policy, and the Department shall be entitled to retain the premium.

Total amount of policy.

16. This policy shall be exhausted when declarations of invoices thereunder shall amount to £ .

SCHEDULE

Name and full address of buyer(s)	Terms of Payment	Maximum amount to be owing at any one time

AUGUST 1933 (REVISED)

**PROPOSAL FORM
OPEN CREDIT POLICY**

**To the EXPORT CREDITS GUARANTEE DEPARTMENT.
9, Clements Lane, Lombard Street, London, E.C.4**

PROPOSAL FOR OPEN CREDIT GUARANTEE POLICY

(i) Kindly inform us of the terms upon which you are prepared to guarantee the payment to us of a percentage of such losses as we may sustain through the insolvency of any one or more of the buyers named in the Schedule hereto.

(ii) The goods will be wholly or partly produced or manufactured in the United Kingdom and will not include any munitions of war and will be sold by us in the ordinary course of our business.

(iii) The cover required is against final loss sustained by us by reason of the insolvency of any of the buyers in respect of goods sold and delivered to such buyers under any of the contracts of sale before he is to our knowledge insolvent.

(iv) Our requirements are further indicated in the Particulars and Schedule hereto.

PARTICULARS

——	For Use of Exporter	For Use of Department
Percentage of loss on insolvency for which cover is required .	per cent	
Maximum aggregate amount of all credits in respect of which guarantees are required . .	£... . . .	
Description of goods to be shipped		
Period during which shipments are intended to be made .		
Security to be furnished by any buyer or otherwise (if any) .		

SCHEDULE

Name and Full Address of Buyer(s)	Maximum Length of Credit	Date of Order (if Booked)	Maximum Amount to be Owing at any One Time	For Use of Department

Premium: . . . .

Underwritten by:

....

12—(B.1800)

DECLARATION

(i) Save as already or hereby disclosed to you, we neither have nor will have any interest whatsoever direct or indirect in the profits made by these buyers who likewise have no interest in our business, nor have we received any indemnity or security in connection with these transactions and we will not receive such indemnity or security or acquire such interest without your consent.

(ii) We send you herewith in confidence (*a*) *recent report(s) giving source(s) and date(s) of origin* as to the standing of each of the buyers. So far as we know all the buyers discharge their obligations punctually and we have no reason to believe that any of them are in financial difficulties. We are not aware of any circumstances which might adversely influence your acceptance of the risk(s) submitted, and we will not without your consent make shipment to any buyer after we have learned that he is in financial difficulties or that his position appears to be such as to make shipment to him undesirable.

(iii) We undertake to treat all discussions and correspondence in connection with this proposal and any policy arising therefrom as confidential and undertake not to disclose any of the details either to our agents or to the buyers or to any other person or concern (other than our Brokers referred to below or our Bankers) without the prior consent of the Department in writing.

(iv) We certify that the representations made and facts stated by us are true and correct in every particular and we agree that they shall form the basis of and be incorporated in the policy and that due performance of each and every undertaking contained herein or in the policy shall be a condition precedent to any liability of the Department thereunder.

Signature:

Address:

Business:

Date:

Brokers through whom business submitted—

Name:

Address:

FOR USE OF DEPARTMENT

(i) Notified.

(ii) Policy No. . ... . . issued.

(iii) Accountant notified.

One of these forms (in duplicate) should be completed and forwarded to the Department immediately after the end of each month declaring the extensions and renewals granted during the previous month.

To Export Credits Guarantee Department,
9, Clements Lane, Lombard Street, E.C.4.

Policy No. . .. .

OPEN CREDIT GUARANTEE POLICY

The following is a complete list of the extensions or renewals which have been granted by us in respect of credits covered by this policy during the month of . 193 , and none of these extensions or renewals is in excess of the period permitted under the policy. We enclose remittance value £ .... for the amount of premium in Column 6.

Certified by

(Exporter's Signature) ....

Postal Address .. . .

Notification acknowledged. *Date* . .. .

Accountant, E.G.G. Department.

. 193

DECLARATION OF EXTENSIONS AND RENEWALS

Name and Address of Buyer	Original Amount	Original Due Date	Amount Extended	Extended Due Date	Premium Payable	For Use of Department

One of these forms (in duplicate) should be completed immediately after the end of each month (See Condition 8 of Open Credit Guarantee Policy).

DECLARATION

To EXPORT CREDITS GUARANTEE DEPARTMENT,
9, CLEMENTS LANE, LOMBARD STREET, E.C.4.

WE HEREBY DECLARE, against **POLICY No.** ...... **dated** ... ... **19** .... the gross value of each and every shipment which we have made to all buyers named in the Schedule to this Policy, during the month of.................. .. .. 19 ....

Shipment Date	Buyer's Name and Address	Period of Credit	Gross Invoice Value of Each Shipment			Date Due for Payment	[1] Goods	
							Description	Value to nearest £
			£	s.	d.			

[1] If all goods shipped are of same description (e.g. Cotton yarns) it will be sufficient to state so under "Description." Otherwise the type and value of goods shipped to each buyer should be given.

Declaration acknowledged: Exporter's Name.................. .... ..

.. . .*Accountant.* Certified by ....

.... .19........ Postal Address...... ....

EXPORT CREDITS GUARANTEE DEPARTMENT, ...

9, CLEMENTS LANE, LOMBARD STREET, E.C.4. Date.... ....

PAYMENT OF PREMIUM ON EXTENSIONS DUE SOLELY TO EXCHANGE RESTRICTIONS

Under the terms of the Bills of Exchange and Open Credit Policies, the Department are concerned only with insuring the credit risk on the buyer and therefore losses due to causes other than the insolvency of the buyer (e.g. exchange restrictions) are not covered by the policy.

Where, however, the buyer has made an irrevocable deposit of local currency equivalent to the full sterling amount of the bill or open account, at the date of maturity, but is not relieved of his liability to make good any differences due to exchange fluctuations between the date of deposit and the date on which sterling becomes available, the Department is prepared—if the Exporter so wishes—to continue its guarantee against the buyer becoming insolvent in the meantime, subject to payment of additional premium for the extended risk, at *one-half* the original rate.

In all other cases, premium at the original rate for the full credit period is payable, if the Exporter wishes to retain the Department's cover until payment is made.

It must be understood that the continuance of the Department's cover beyond the original date of maturity of any guaranteed bill of exchange or open credit is contingent upon the Exporter giving due notification of default in payment, whatever the cause, in accordance with the conditions of the policy.

Where necessary (e.g. in the case of Germany) the Exporter must satisfy himself in each case before shipping goods that the buyer has actually obtained an exchange permit or certificate entitling him to obtain the sterling for the full amount of the bill of exchange at the date upon which payment is to become due. Goods should not be shipped on a mere statement that the necessary exchange certificate or permit will be obtained.

MARCH 1935 (REVISED)

EXPORT CREDITS GUARANTEE DEPARTMENT
9, Clements Lane, Lombard Street, London, E.C.4

BILLS OF EXCHANGE GUARANTEE POLICY

No. E

POLICY made the day of 19 between

who carries on business at

(hereinafter called "the Exporter") of the one part and the Board of Trade acting by the Export Credits Guarantee Department (hereinafter called "the Department") of the other part.

WHEREAS the Exporter has made a Proposal dated (hereinafter called "the Proposal") that the Department should guarantee payment to the Exporter upon the insolvency of certain buyers of a part of such losses as the Exporter may sustain by non-payment of certain bills of exchange.

Guarantee. IN CONSIDERATION of the premium of £ (the receipt of which the Department hereby acknowledge) the Department guarantee (subject to the following conditions) payment to the Exporter of per cent (hereinafter called the "agreed percentage") of all such losses as the Exporter may sustain by non-payment of any bill of exchange in respect of which this policy shall attach where the buyer who accepts the bill becomes insolvent.

CONDITIONS

Customs and exchange regulations, etc. 1. The Exporter shall exercise the same care in granting credits as if the buyers' accounts were not insured and shall at all times satisfy himself that all customs and exchange regulations in force in the respective countries covered by this policy have been complied with so as to entitle the buyer to obtain sterling for the full amount of each bill of exchange at the date upon which payment thereof becomes due.

Proposal. 2.—(i) The Proposal and the Declaration thereto shall be incorporated with this policy as the basis thereof, and if any of the statements contained in the Proposal or the Declaration be untrue or incorrect in any respect this policy shall be void but the Department shall retain any premium which has been paid.

(ii) Due performance of each and every undertaking contained herein or in the Proposal or the Declaration thereto shall be a condition precedent to any liability of the Department hereunder.

Bills. 3. Save, with the consent in writing of the Department, this policy shall attach in respect of a bill of exchange, only if—

(i) it is drawn in sterling by the Exporter in respect of a sale of goods described in the Proposal shipped between 193 and 193 and delivered under a contract made, in the ordinary course of the Exporter's business, not earlier than 193 and the length of credit does not exceed the maximum set opposite the name of the buyer in the Schedule hereto;

(ii) the amount for which it is drawn, when added to all other amounts (if any) still to be paid upon other bills accepted by the same buyer does not exceed the maximum set opposite his name in the said Schedule;

(iii) it is declared by the Exporter as hereinafter provided, and accepted by the buyer within 60 days after the goods are at his disposal.

4. On or before the tenth day of each calendar month, the Exporter shall deliver to the Department a declaration in the form approved by the Department of the amount of every bill drawn by him on any of the scheduled buyers during the previous month together with such other information as is required by the said form. Declarations.

5. If during the currency of this policy the Exporter should receive any information of an adverse nature relating to a buyer, the Exporter will immediately inform the Department and shall not thereafter without their consent be entitled to declare any further bills drawn on that buyer. Full disclosure by Exporter.

6. If, during the course of transit of goods to a buyer, it should come to the Exporter's knowledge that the buyer has ceased to pay his debts in the ordinary course of business, or cannot pay his debts as they become due, the Exporter shall exercise his right to stop the goods in transit, unless the Department consent to his refraining from so doing. Stoppage transit.

7. The Exporter may extend the original time of payment of a bill in whole or in part or renew the same for a period not exceeding 90 days provided that— Extensions.

(*a*) no information of an adverse nature relating to the buyer who accepted the bill has been received by the Exporter;

(*b*) notice in writing of the extension or renewal is given to the Department forthwith so that in any event such notice is received by the Department before the extended due date;

(*c*) a proportionate additional premium at the rate of shillings and pence per £100 of the amount extended or renewed for every month or part of a month, is paid to the Department when the notice is given.

No extension or renewal beyond the said period of 90 days shall be given without the prior approval in writing of the Department.

Dishonour and recoveries before loss.

8. Where any such bill as aforesaid is dishonoured by non-payment, the Exporter shall immediately take all steps that may be necessary or expedient in the mutual interests of the Exporter and the Department to preserve all rights in the bill, and to effect recoveries from the buyer, and shall, within 30 days after the due date, notify the Department of the dishonour, and shall at all times thereafter take such steps for the purposes aforesaid as the Department may require, and also shall, if so requested by them deliver the bill to the Department and transfer to them all rights therein and any security therefor.

Losses.

9. A loss shall be deemed to have been sustained when a buyer becomes insolvent, and any such bill as aforesaid, accepted by him, remains unpaid. The amount of the loss shall be the sum admitted as a debt by those responsible for the administration of the affairs of the insolvent buyer, after the deduction of all sums previously recovered from the buyer or from any source on his behalf, and of all amounts received from *del credere* agents and of all counterclaims in relation to goods in respect of which bills have been declared under this policy.

Insolvency.

10. A buyer shall be deemed to be insolvent when—

(*a*) he is declared bankrupt; or

(*b*) he has made a valid assignment, composition or other arrangement for the benefit of his creditors generally; or

(*c*) a receiver has been appointed to manage his estate; or

if a corporate body—

(*d*) an order has been made for compulsory winding-up; or

(*e*) an effective resolution has been passed for voluntary winding-up provided that such resolution is not merely for the purpose of reconstruction; or

(*f*) an arrangement binding on all creditors has been sanctioned by the Court; or

whether incorporate or unincorporated—

(*g*) such conditions exist as are equivalent in effect to any of the foregoing conditions.

Compositions.

11. The Department shall be under no liability under this policy in respect of a bill where the Exporter (not having obtained the prior approval in writing of the Department) has accepted a composition arrangement with the buyer unless the assignment composition, or other arrangement is legally binding on all the buyer's creditors.

Payment by Department.

12. So soon as any loss (as above defined) has been sustained by the Exporter or is admitted by the

Department, and the amount thereof has been ascertained and all the Exporter's rights in the bill in question have been validly transferred to the Department, the Department will immediately pay to the Exporter the agreed percentage of the loss, and will from time to time thereafter pay to him every sum recovered by the Department from the buyer, or those responsible for the administration of his affairs, less the agreed percentage thereof.

13. Where any bill, extension or renewal shown by any declaration delivered hereunder, exceeds the respective limits hereinbefore provided, or is otherwise not in accordance with this policy, no acknowledgment of this declaration by the Department, and no payment or tender of premium by the Exporter, even though credited to him by the Department, shall of itself be deemed to bind the Department to undertake any liability in respect of the bill, or to approve of the renewal or extension. Premium paid in excess.

14. If the Exporter should make any claim under this policy knowing the same to be false or fraudulent the liability of the Department to the Exporter shall thereupon cease, and the Exporter shall have no claim hereunder, but shall repay to the Department on demand all sums paid by them in relation to any bill in respect of which the policy shall have attached, and the Department shall be entitled to retain all premiums. False or fraudulent claims.

15. The Exporter shall furnish to the Department such evidence as they may at any time require as to any bill of exchange declared under this policy, or as to the origin or shipment or conditions of sale of the goods in respect of which the bill was drawn and the Department shall have the right to inspect any of the Exporter's books, documents and correspondence relating to any of the matters aforesaid. Evidence of transactions.

16. This policy shall be exhausted when bills declared thereunder amount to £ . . Total amount of policy.

SCHEDULE

Name and Full Address of Buyer(s)	Maximum Length of Credit	Maximum Amount to be Outstanding at any One Time under Bills Current or Due

AUGUST 1933 (REVISED)

PROPOSAL FORM.
BILLS POLICY.

To the EXPORT CREDITS GUARANTEE DEPARTMENT,
9, CLEMENTS LANE, LOMBARD STREET, LONDON, E.C.4.

PROPOSAL FOR BILLS OF EXCHANGE GUARANTEE POLICY

(i) Kindly inform us of the terms upon which you are prepared to guarantee the payment to us of a percentage of such losses as we may sustain by non-payment of Bills of Exchange drawn in sterling and accepted by a Buyer named in the Schedule hereto in respect of goods sold and delivered by us before the Buyer is to our knowledge insolvent.

(ii) The goods will be goods wholly or partly produced or manufactured in the United Kingdom, and will not include any munitions of war and will be sold by us in the ordinary course of our business.

(iii) The cover required is against loss sustained by us on any such Bill of Exchange as aforesaid by reason of the insolvency of the Buyer.

(iv) Our requirements are further indicated in the particulars and Schedule hereto.

PARTICULARS

	For Use of Exporter	For Use of Department
Percentage of loss on insolvency for which cover is required .	per cent	
Maximum aggregate amount of all Bills of Exchange in respect of which the guarantee is required	£	
Description of goods to be shipped		
Period during which shipments will be made		
Security (if any) to be furnished by any Buyer or otherwise .		

SCHEDULE

Name(s) and Full Address(es) of Buyer(s)	Maximum Length of Credit	Date of Order (if booked)	Maximum Amount to be Outstanding at any One Time under Bills Current or Due	For Use of Department

Premium: ....

Underwritten by: ... .

DECLARATION

(i) Save as already or hereby disclosed to you, we neither have nor will have any interest whatsoever direct or indirect in the business of any of these Buyers, who likewise have no interest in our business, nor have we received any indemnity or security in connection with the intended transactions, and we will not receive such indemnity or security or acquire such interest without your consent.

(ii) We send you herewith in confidence (a) *recent report(s) giving source(s) and date(s) of origin* as to the standing of each of the buyers. So far as we know all the buyers discharge their obligations regularly and we have no reason to believe that any of them is in financial difficulties. We are not aware of any circumstances which might adversely influence your acceptance of the risk(s) submitted, and we will not, without your consent, make shipment to any buyer after we have learned that he is in financial difficulties or that his position appears to be such as to make shipment to him undesirable.

(iii) We undertake to treat all discussions and correspondence in connection with this proposal and any policy arising therefrom as confidential and not to disclose any of the details either to our agents or to the buyers or to any other person or concern (other than our Brokers referred to below and our Bankers) without your prior consent in writing.

(iv) We certify that the representations made and facts stated by us are true and correct in every particular, and we agree that they shall form the basis of and be incorporated in the policy, and that due performance of each and every undertaking contained herein or in the policy shall be a condition precedent to any liability of the Department thereunder.

Signature:

Address:

Business:

Date:

Brokers (if any) through whom business submitted:

Name:

Address:

FOR USE OF DEPARTMENT

(i) Notified.

(ii) Policy No... . . issued.

(iii) Accountant notified.

One of these forms (in duplicate) should be completed and forwarded to the Department immediately after the end of each month declaring the extensions and renewals granted during the previous month.

To EXPORT CREDITS GUARANTEE DEPARTMENT,
9, CLEMENTS LANE, LOMBARD STREET, E.C.4.

Policy No. .. .

BILLS OF EXCHANGE GUARANTEE (INSOLVENCY) POLICY

The following is a complete list of the extensions or renewals which have been granted by us in respect of Bills of Exchange declared under this policy during the month ending .... 19 ... , and none of these extensions or renewals is in excess of the period permitted under the policy. We enclose remittance value £ .... for the amount of premium in Column 6.

Exporter's Name and Address ... ..

. . .

We acknowledge receipt of this notification. . . .. .

....

Accountant, E.C.G. Department.

Date . *Date* .

DECLARATION OF EXTENSIONS AND RENEWALS

Name and Address of Buyer	Original Amount of Bill(s) of Exchange	Original Due Date	Amount Extended	Extended Due Date	Premium Payable	For Use of Department

One of these forms (in duplicate) should be completed and forwarded to the Department immediately after the end of each month, declaring every bill drawn during the preceding month on buyers named in the Schedule to the Policy.

To EXPORT CREDITS GUARANTEE DEPARTMENT,
9, CLEMENTS LANE, LOMBARD STREET, E.C.4.

Date .... . . 19.. .

BILLS OF EXCHANGE GUARANTEE POLICY

WE HEREBY DECLARE, against **POLICY No.** .. **dated** **19** the gross value of each and every bill which we have drawn, during the period stated, on all Buyers named in the Schedule to this Policy, as per List annexed.

Exporter's Signature . .
,, Postal Address .

We acknowledge the receipt . . . .
of this Declaration

. .. . .
Accountant, E. C. G. Dept.

. .. 19

One of these forms (in duplicate) should be completed immediately after the end of each month (See Condition 4 of Bills of Exchange Guarantee Policy).

DECLARATION

To EXPORT CREDITS GUARANTEE DEPARTMENT,
9, CLEMENTS LANE, LOMBARD STREET, E.C.4.

WE HEREBY DECLARE, against **POLICY No.**...... . ..**dated**........... **19**........the gross value of each and every bill which we have drawn on all buyers named in the Schedule to this Policy, during the month of. ....19 ....

Ship-ment Date	Buyer's Name and Address	Tenor of Bill	Face Value of each Bill			Date of Maturity	Goods[1]	
							Description	Value to nearest £
			£	*s.*	*d.*			

[1] If all goods shipped are of same description (e.g. Cotton yarns), it will be sufficient to state so under "Description." Otherwise the type and value of goods shipped to each buyer should be given.

Declaration acknowledged:

... .*Accountant.*

Exporter's Name ....
Certified by ....
Postal Address............... ....

EXPORT CREDITS GUARANTEE DEPARTMENT, ...
9, CLEMENTS LANE, LOMBARD STREET, E.C.4.

Date..................

COMPREHENSIVE GUARANTEE

No. F.

POLICY made the day of 193
between
who carries on business at

(hereinafter called "the Exporter") of the one part and the Board of Trade acting by the Export Credits Guarantee Department (hereinafter called "the Department") of the other part.

WHEREAS the Exporter has made a Proposal dated 193 (hereinafter called "the Proposal") that the Department should guarantee payment to the Exporter of part of such loss as he may sustain through the insolvency of his buyers.

Guarantee.

In consideration of the premium paid and payable as in Condition 19 hereof the Department guarantee subject as hereinafter provided to pay to the Exporter per cent of the loss as defined in Condition 8 that the Exporter may sustain through the insolvency of any one or more of his buyers (hereinafter referred to as "the buyer") in

in respect of
wholly or partly produced or manufactured in the United Kingdom (not being munitions of war) shipped between 193 and 193 and delivered under a contract of sale effected in the normal course of the Exporter's business.

CONDITIONS

Customs and exchange regulations, etc.

1. The Exporter shall exercise the same care in granting credits as if the buyers' accounts were not insured, and shall at all times satisfy himself that all customs and exchange regulations in force in the respective countries covered by this policy have been complied with so as to entitle the buyer to obtain sterling for the full amount of each shipment at the date upon which payment becomes due.

2. Unless otherwise agreed by the Department in writing this policy shall not attach to—

Credit limits.

(*a*) any credit granted by the Exporter to any buyer after he has become aware of any circumstances which might deter the Department from accepting the risk on that credit or after conditions have arisen in any of the countries specified which have the effect of preventing buyers generally from promptly paying their commercial debts or of permitting the buyers legally to postpone payment of such debts.

(*b*) any original credit exceeding six months.

(*c*) any extension or renewal granted beyond a period of 90 days from the original due date of the account or bill.

(*d*) amounts owing to the Exporter by any buyer in excess of £ (including any amounts guaranteed or to be guaranteed by the Department under the terms of any previous policy). Limits allowed by Exporter.

(*e*) any credit granted to a buyer of greater amount or longer tenor that the Exporter has granted to that buyer within the two years immediately preceding or where no credit has been granted to a buyer within such period any credit to such a buyer unless such credit or increase in amount or tenor respectively is warranted by up-to-date information obtained by the Exporter from not less than two reliable sources which information shall be available for production to the Department at any time upon request.

3. In regard to limits in excess of the amount stated in Condition (2) (*d*) hereof the Exporter shall submit to the Department for consideration the name and address of the buyer and the amount of credit and terms of payment proposed to be granted and unless and until such excess shall have been approved by the Department the Department shall be under no liability in respect of any such excess. The Department will not in any event accept liability in respect of a credit limit in excess of £ . Limits approved by Department.

4. The Exporter undertakes to declare to the Department on the approved form on or before the tenth day of each calendar month— Declarations of shipments and overdue accounts.

(*a*) the gross invoice value of all shipments to the countries made during the previous month; and

(*b*) all accounts or bills which shall have remained unpaid in part or in whole for more than ninety days from the original due dates; and

(*c*) such information as is or may be from time to time required by the said approved form.

5. The Exporter undertakes to notify the Department of the insolvency of any buyer within 30 days after the date thereof and at the same time to furnish the Department with a copy of his statement of account with such buyer. Notification of insolvency.

6. For the purpose of this policy a buyer shall be deemed to be insolvent when— Insolvency.

(*a*) he is declared bankrupt; or

(*b*) he has made a valid assignment composition or other arrangement for the benefit of his creditors generally; or

(*c*) a receiver has been appointed to manage his estate; or

if an incorporated body—

(*d*) an order has been made for compulsory winding-up; or

(*e*) an effective resolution has been passed for voluntary winding-up provided that such resolution is not merely for the purpose of reconstruction; or

(*f*) an arrangement binding on all credits has been sanctioned by the Court; or

whether incorporated or unincorporated—

(*g*) such conditions exist as are equivalent in effect to any of the foregoing conditions.

Compositions. 7. The Department shall be under no liability in respect of a debt as to which the Exporter has accepted a composition arrangement with the buyer unless the Department's prior approval has been obtained or the composition arrangement is legally binding on all creditors.

Losses. 8. The liability of the Department shall only arise if the buyer becomes insolvent on or before 193 and shall be limited to the agreed percentage of debts admitted by those responsible for the administration of the affairs of the insolvent buyer in respect of amounts declared and covered by this policy after deduction of all counter-claims in connection with the shipments declared under this policy and of all amounts received from *del credere* agents and of all amounts recovered from the buyer or from realisation of any security or from any other source. If the Department renew this policy and the buyer becomes insolvent after 193 the loss sustained in respect of shipments declared under this policy shall rank against the renewal policy.

Evidence of transactions. 9. The Exporter shall furnish to the Department such evidence as they may at any time require as to any amount declared under this policy or as to the origin or shipment or conditions of sale of the goods in respect of which the credit was granted and/or bills of exchange accepted and the Department shall have the right to inspect any of the Exporter's books, documents and correspondence relating to any of the matters aforesaid.

Proposal and subsequent full disclosure. 10.—(i) The Proposal and Declaration thereto shall be incorporated with this policy as the basis thereof and if any of the statements contained in the Proposal or the Declaration be untrue or incorrect in any respect this policy shall be void but the Department shall retain any premium which has been paid.

(ii) Due performance of each and every undertaking contained herein or in the Proposal or the Declaration thereto shall be a condition precedent to any liability of the Department hereunder.

(iii) If during the currency of this policy the Exporter should receive any information of an adverse nature relative to a buyer the Exporter will immediately

inform the Department and the Department shall not be liable in respect of any shipments made to that buyer after receipt by the Exporter of such information.

(iv) If during the course of transit of goods to a buyer it should come to the Exporter's knowledge that such buyer has ceased to pay his debts in the ordinary course of business or cannot pay his debts as they become due the Exporter shall exercise his right to stop the goods in transit unless the Department consents to his refraining from so doing.

11. The Exporter shall take all steps to effect recoveries from the buyer which may be necessary or expedient or which the Department may at any time require and the Department shall have the right at any time to take over any unpaid account or dishonoured bill and to require the Exporter to transfer to the Department all rights therein and any security therefor for the purpose of effecting recoveries in such manner as the Department may consider necessary or desirable. **Recoveries.**

12. Notwithstanding anything elsewhere contained in this policy the first £ in respect of which the Department but for this condition would have been liable to pay the agreed percentage shall be wholly the risk of the Exporter and the Department shall not be liable for any part thereof. **First loss.**

13. As soon as any debt covered by this policy has been admitted by those responsible for the administration of the affairs of the insolvent buyer or by the Department and the Exporter's full rights therein have been validly transferred to the Department, the Department will immediately pay the full amount of their liability under this policy and any recoveries made thereafter shall be divided between the Department and the Exporter as follows— **Payment by Department and division of recoveries.**

(*a*) where the net loss after crediting such recovery is more than £ , per cent of the recovery shall be retained by the Department and per cent shall be paid to the Exporter.

(*b*) where the net loss after crediting such recovery is £ or less the Department shall retain a sufficient sum to reimburse the Department in respect of any payments made under this policy and the balance shall be paid to the Exporter.

Provided that the Department shall not be liable to make any payment which would make the total of the amounts paid by them hereunder after deduction of all recoveries retained by them exceed £ .

14. This policy shall not cover differences due to fluctuations in exchange in respect of sales invoices or bills drawn payable in currencies other than sterling. The sterling value of such invoices and/or bills of exchange shall be ascertained according to the selling **Exchange risks.**

rate in London for the currencies in question on the day the invoices and/or bills of exchange are declared to the Department or reach maturity whichever amount is the lesser.

False or fraudulent claims.

15. If the Exporter shall make any claim under this policy knowing the same to be false or fraudulent the liability of the Department to the Exporter under this policy shall thereupon cease and the Exporter shall have no claim hereunder and shall repay to the Department on demand all sums paid by them in respect of any claims under this policy and the Department shall be entitled to retain the premium.

Total amount of Policy (and excess thereof).

16. The Exporter undertakes to declare under the terms of this policy all his shipments made between 193 and 193 . If the total amount so declared exceeds £ additional premium shall be paid on such excess at the rate specified in Condition 19 (*b*) hereof and thereupon the respective amounts specified in Conditions 12 and 13 shall be treated as proportionately increased.

Cover after policy period.

17. If this policy is not renewed for any reason the Department's liability shall continue under the terms of this policy for a period not exceeding 12 months from 193 in respect of amounts duly declared under Condition 4 provided always that (*a*) the Exporter immediately after 193 shall declare to the Department on the approved form the amount of each and every account or bill of exchange which shall have reached the original due date and shall be unpaid on 193 and that (*b*) on the last day of each month thereafter until 193 the Exporter shall also declare to the Department the balance of each and every account or bill which shall have reached the original due date and shall be unpaid on that date and that (*c*) with each declaration the Exporter shall pay to the Department additional premium at the rate specified in Condition 19 (*c*) hereof.

If Exporter becomes insolvent.

18. In the event of the Exporter becoming bankrupt or insolvent before the final date of shipment allowed by this policy, the Department unless otherwise agreed shall be under no liability in respect of shipments made after the date of such bankruptcy or insolvency.

Premium.

19. Premium shall be as follows—

(*a*) £ paid on the signing of this policy (the receipt whereof is hereby acknowledged). No part of this amount will be returnable to the Exporter.

(*b*) The additional premium payable in accordance with Condition 16 hereof shall be calculated at the rate of shillings and pence for every £100 (or part thereof) of the excess declared.

(*c*) The additional premium payable in accordance with Condition 17 hereof shall be calculated at the rate of   shillings and   pence for every £100 (or part thereof) of the gross amount shown by each monthly declaration made under Condition 17 hereof to be outstanding.

20. If any account or bill (or any extension or renewal thereof) in respect of any shipment declared hereunder exceeds the limits hereinbefore provided or is otherwise not in accordance with this policy no acknowledgment of the declaration by the Department and no payment or tender of premium by the Exporter shall be deemed to bind the Department to undertake any liability in respect of the account or bill or to approve of the renewal or extension. **Uncovered risks.**

To the **EXPORT CREDITS GUARANTEE DEPARTMEN**
9, Clements Lane, Lombard Street, London, E.C.4,

PROPOSAL FOR COMPREHENSIVE GUARANTEE

(i) Kindly inform us of the terms upon which you are prep to guarantee to pay % of such losses as we may su: through the insolvency of any one or more of our buyers in res of the sale and delivery to such buyers in the normal course o export business of goods shipped during the period 19 , to , 19 , and before the buyer is to knowledge insolvent under any contract of sale effected in normal course of our business.

(ii) The goods to be shipped are , and they be wholly or partly produced or manufactured in the United K dom and will not include any munitions of war.

DECLARATION (To be treated in strict confidence)

1. (*a*) We anticipate that our total export business with . countries in the period stated will be—

	[1]Country	Amount	Maximum Credit Period		Country	Amount	Maxi Cre Per
					Brought for'd		
A.		£		H.		£	
B.				I.			
C.				J.			
D.				K.			
E.				L.			
F.				M.			
G.				N.			
	Carried for'd	£			Total	£	

(*b*) The above total includes approximately per cen respect of sales for cash on or before delivery.

2. Our export turnover and bad debts, which term shall r the actual losses incurred on all buyers overseas, exclusive of (pensation received from agents, insurers and any other sourc the previous five completed years and the subsequent perio date, have been as follows—

Country	For each of the Last Five (Completed) Years										Subsequent Pe To Date	
	Turnover, £					Bad Debts Written Off					Turnover	Bad I Writt
	19	19	19	19	19	19	19	19	19	19	£	£
A.												
B.												
C.												
D.												
E.												
F.												
G.												
H.												
I.												
J.												
K.												
L.												
M.												
N.												
Total	£					£					£	£

[1] If space insufficient, attach separate signed statement(s).

3. We append (*a*) a note of any exceptional losses on individual firms or countries, and (*b*) a statement of overdue accounts with an estimate of possible losses thereon.

4. The approximate number and credit limits of our accounts are as follows—

Number.	Credit Limits.	Number.	Credit Limits.
	Up to £100		£501/£1,000
	£101/£250		£1,001/£2,500
	£251/£500		£2,501/£5,000

5. The sources from which we obtain information regarding prospective buyers are—

6. We are not aware of any circumstances which might adversely influence your acceptance of any of the risks submitted.

7. Unless otherwise agreed by the Department in writing the policy for which we are asking you to quote is not to attach

(*a*) to credits granted to any buyer in whose profits we have any interest, direct or indirect, or who has any interest in our business,

or

(*b*) to a further credit granted to any buyer (i) whose bill or account is already three months overdue or (ii) after we have learnt that he is in financial difficulties or that his position appears to be such as to make shipments to him undesirable.

8. Generally, it is our intention to carry on our business on the same lines and with no less care in granting credits than in the past in regard to the amount of such credits, their tenor and any security that we may in any case have required for them, and we undertake to declare ALL shipments for the countries specified in the policy unless otherwise agreed by the Department in writing.

9. All discussions and correspondence in connection with this Proposal and with any policy arising therefrom are to be treated by both sides as confidential, and we undertake not to disclose any of the details to our agents or to the buyers or to any other person or concern other than in confidence to our brokers referred to below or our bankers without the prior consent of the Department in writing.

10. We certify that the representations made and facts stated by us are true, and that we have not misrepresented or omitted any material fact which might have a bearing on the policy, and we agree that such representations and facts shall form the basis of and be incorporated in the policy and that the truth of such representations and facts and due performance of each and every undertaking contained herein or in the policy shall be a condition precedent to any liability of the Department thereunder.

Signature ....

Address ....

Business ....

Date..

Brokers through whom business submitted—

Name ....

Address ....

SHIPMENTS (C.G.

One of these forms (in duplicate) should be completed and forwarded to the Department on or before the 10th of each month declaring the gross invoice value of shipment during the preceding month.

To EXPORT CREDITS GUARANTEE DEPARTMENT,
9, CLEMENTS LANE, LOMBARD STREET, E.C.4.

The gross invoice value of ALL shipments made during the mo of . . declared against Policy No. ... . .. dated .. .. is as follows—

Country	Total Shipments to Buyers on Limits		Total	For Departmental Use
	Not Requiring Department's Approval	Approved by Department		
(1)	(2) Total per Country	(3) Total per Country	(4)	(5)
	£	£	£	
Total shipments for month				

Certified by:
(*Exporter's Signature*) .. ..

Declaration acknowledged.

Postal Address . . .. ..

. ...

Accountant,
EXPORT CREDITS GUARANTEE DEPARTMENT.

Date ....

.... 19 ... ...

The figures in Column (2) opposite include shipments to the following buyers whose names have not previously been notified to the Department.[1]

Name of Buyer	Address	For Departmental Use

[1] Names and addresses of buyers to whom shipments have been made under a credit limit not requiring the Department's approval should be notified to the Department ONCE ONLY during the currency of the policy. The object of this notification is to enable the Department to advise the Exporter of any adverse information it may receive regarding such buyers.

OVERDUE Acs. (C.G.)

One of these forms (in duplicate) should be completed and forwarded to the Department before the 10th of each month declaring all accounts and or bills of exchange which became overdue during the previous month.

To EXPORT CREDITS GUARANTEE DEPARTMENT,
9, CLEMENTS LANE, LOMBARD STREET, E.C.4.

The following is a complete list of ALL accounts and/or bills of exchange declared against Policy F.... .... which, at the end of the month of. . ... 19...... remained unpaid in part or in whole for more than 90 days from the original due date.

Name and Address of Buyer	Original Amount	Original Due Date	If any Extensions or renewals have Already been Granted		Amounts (including acceptances) Overdue at End of month of 19 .	Other Amounts (including acceptances) Outstanding but not yet Due	For Departmental Use
			Amount Extended	Extended Due Date			
	£		£		£	£	

Certified by:

Declaration acknowledged.

(*Exporter's Signature*) ....

Postal Address ....

Accountant,
EXPORT CREDITS GUARANTEE DEPARTMENT.

. .. .

...............................19........

Date..................................

Overdue Acs. (C.G.)

One of these forms (in duplicate) should be completed and forwarded to the Department before the 10th of each month declaring all Accounts and or Bills of Exchange which became overdue during the previous month.

To EXPORT CREDITS GUARANTEE DEPARTMENT,
9, CLEMENTS LANE, LOMBARD STREET, E.C.4.

Policy No...... .. . .

COMPREHENSIVE GUARANTEE

The following is a complete list of all the Accounts and/or Bills of Exchange in respect of credits covered by this policy which became overdue during the month ending .. .. 19 . . . (We enclose remittance value £ .... for the amount of premium in Column 7.)

We acknowledge receipt of this notification.

Exporter's Name and Address . ...

....

Accountant, E.C.G. Dept.

Date..... ....

DECLARATION OF ALL OVERDUE ACCOUNTS AND/OR BILLS OF EXCHANGE

Name and Address of Buyer	Original Amount	Original Due Date	If any Extensions or Renewals have already been Granted		Amounts Overdue on ......19.....	Premium Payable (if any)	For Use of Dept.
			Amount Extended	Extended Due Date			

Overdues

(German Transfer Addendum)

EXPORT CREDITS GUARANTEE DEPARTMENT

9, Clements Lane, Lombard Street, London, E.C.4.

Policy No. .....

We hereby make the following declaration in accordance with Condition 3(*b*) of the Addendum to the above Policy.

Name and Address of Buyer	Date of Ship-ment	Date Due	Amount of Debt 3 Months Overdue	Remarks

Certified by . . . .

Declaration acknowledged (Exporter's signature)

Postal Address .. ..

....

Accountant. . ...

EXPORT CREDITS GUARANTEE DEPARTMENT.

Date ... .

.... .193 .

ADDENDUM TO COMPREHENSIVE GUARANTEE POLICIES

German Transfer Risk

WHEREAS a Policy No. F/ (hereinafter called "the Policy") was made between who carries on business at (hereinafter called "the Exporter") and the Board of Trade acting by the Export Credits Guarantee Department (hereinafter called "the Department") on the day of

AND WHEREAS the Exporter has requested the Department to give a further guarantee in connection therewith.

NOW THEREFORE it is agreed that this addendum shall be attached to the policy and in consideration of the additional premium of pounds (the receipt of which is hereby acknowledged) the Department further guarantees subject as hereinafter provided to pay to the Exporter per cent (hereinafter called "the agreed percentage") of the amount of any bill of exchange or open credit account (either of which is hereinafter termed "a debt") to which the policy may from time to time attach relating to goods shipped between and (hereinafter called "the period of shipment") to a buyer ordinarily resident or ordinarily carrying on business in Germany.

CONDITIONS

(1) This guarantee shall attach to a debt only where—

(*a*) the buyer has obtained a foreign exchange certificate current at the due date of the debt in accordance with the provisions of the Anglo-German Payments Agreement dated November 1st 1934; and

(*b*) the Exporter has complied with any and every Import and Customs Regulation due to be complied with by him in respect of the importation of the relative goods into Germany; and

(*c*) the Exporter has sent to the buyer a certificate issued by a British Chamber of Commerce to the effect that the relative goods are United Kingdom goods and any other documents which are required by German law and should be provided by the Exporter.

(2) Unless otherwise agreed by the Department in writing this guarantee shall not attach to—

(*a*) any debt of longer tenor than that previously granted by the Exporter to the buyer from whom that debt is due; or

(*b*) any debt the tenor of which has been extended by the Exporter; or

(*c*) any debt due from a buyer who becomes insolvent at any time before the due date for payment by the Department hereunder; or

(*d*) any debts in respect of a shipment made after the termination or any alteration of the Anglo-German Payments Agreement dated November 1st 1934.

(3) The Exporter shall declare to the Department on the approved form—

(*a*) within ten days after each calendar month in the period of shipment the gross invoice value of each shipment to each buyer ordinarily resident or ordinarily carrying on business in Germany made during that month together with such information as is required by such form; and

(*b*) forthwith at the end of each calendar month the amount of every debt hereby guaranteed which remains wholly or partly unpaid three months after the due date thereof.

(4) If any debt hereby guaranteed remains wholly or partly unpaid at the expiration of six months from the original due date thereof the Department will pay to the Exporter the agreed percentage of the amount remaining unpaid provided that the total payment by the Department in respect of the debts of any buyer including any debts guaranteed or to be guaranteed by the Department under the policy or any previous contract (after deduction of all recoveries retained by the Department in respect of such debts) shall not exceed the agreed percentage of the maximum credit to that buyer to which the policy attaches.

(5) The Exporter when making any claim hereunder shall—

(*a*) deliver to the Department full particulars of the debt and certified copies of the relative bills of lading and invoices; and

(*b*) submit to the Department any available information as to the solvency of the buyer and evidence that the buyer has applied for and complied with all requirements relating to the release of sterling in payment of the debt; and

(*c*) direct the buyer or the collecting bank to make all further payments in respect of the debt to the Department.

(6) Upon payment by the Department under Condition (4) all rights in the debt and any security therefor and any document relating thereto shall be transferred to the Department and the Department shall be entitled to the whole of the amounts recovered by the Exporter or the Department from the buyer or from any other source in respect of the debt to an amount equal to that of the payment made together with any costs and expenses incurred by the Department and interest calculated from day to day at the rate of 1 per cent above Bank rate upon the amount from time to time paid by the Department and unrecovered. Any further sums recovered shall be paid to the Exporter.

(7) If after the Department have made any payment under Condition (4) but before the Department have recovered the whole amount receivable by them under Condition (6) the buyer should become insolvent the Exporter shall on demand immediately refund to the Department the net amount paid by them together with interest at the rate of 1 per cent above Bank rate from the date of payment by the Department to the date of repayment by the Exporter.

(8) If the Exporter shall make any claim hereunder knowing the same to be false or fraudulent the liability of the Department hereunder shall thereupon cease and the Exporter shall have no claim hereunder and shall repay to the Department on demand all sums paid by them and the Department shall be entitled to retain the premium.

(9) When the total of declarations under Condition 3 (*a*) amount to £ this guarantee shall not attach to a debt for any goods further declared.

Dated this day of 193

SIGNED on behalf of the Board of Trade in pursuance of the provisions of the Overseas Trade Acts 1920–1934.

Witnessed by:

Witnessed by:

PROPOSAL TO THE DEPARTMENT FOR AN OPEN CREDIT GUARANTEE CONTRACT (G) (S)

PROPOSAL

(i) Kindly inform us of the terms upon which you are prepared to guarantee the payment of a percentage of such losses as we may sustain by the default of
(hereinafter called the buyers) in payment of instalments of credits in respect of goods described in the schedule hereto sold and delivered by us to such buyers under a contract of sale entered into in the ordinary course of our business. The total sterling value of the said goods and terms of payment in respect thereof are set out in the schedule hereto.

(ii) The said goods will be wholly or partly produced or manufactured in the United Kingdom and will not be munitions of war and will be shipped during the period set out in the schedule hereto.

DECLARATION

(i) In connection with these transactions, we have not already insured or assigned any portion of the credits in question, nor have we received any indemnity or security whatsoever, and we will not insure that portion of the credits not guaranteed by you nor will we dispose of our interest in such unguaranteed portion nor will we receive any indemnity or security other than as aforesaid in respect of the whole or any part of any credit without your prior consent in writing.

(ii) We will not without your consent in writing declare any shipments to the buyers after we have learned that they are in financial difficulties or that their position appears to be such as to make shipments to them undesirable, or that for any other reason payment at the due date is unlikely.

(iii) We undertake to treat all discussions and correspondence in connection with this proposal and any contract arising therefrom as confidential and not to disclose any of the details either to our agents or to the buyers or to any other person or concern (other than our Brokers and our Bankers) without the prior consent of the Department in writing.

(iv) We certify that the representations made and facts stated by us are true and correct in every particular and we agree that they shall form the basis of and be incorporated in the contract, and that due performance of each and every undertaking contained herein or in the contract shall be a condition precedent to any liability of the Department thereunder.

Signature

Address

Business

Date

SCHEDULE

Description of Goods	Shipment Period	Terms of Payment				
		Total Sterling Value of Order	Amount thereof Payable in Cash on or before Delivery	Total Amount of the Credit Referred to in the Proposal	Amount of each Instalment	Due Date of each Instalment

EXPORT CREDITS GUARANTEE DEPARTMENT

OPEN CREDIT GUARANTEE CONTRACT (G) (S)

CONTRACT made the day of 193 , between

who carries on business at

(hereinafter called the Exporter) of the one part and the Board of Trade acting through the Export Credits Guarantee Department (which Board so acting is hereinafter called "the Department") of the other part.

WHEREAS the Exporter has entered into a contract (hereinafter called "the contract for sale") dated day of , to sell certain goods to the (hereinafter called "the buyers").

AND WHEREAS the Exporter has made a Proposal dated the day of 193 , (hereinafter called "the Proposal"), that the Department should guarantee payment to the Exporter of per cent of the loss arising from default by the buyers in payment of certain instalments (hereinafter called "the instalments") of which the amounts and due dates of payment are set out in the schedule to the Proposal.

(1) In consideration of the premium of £ paid by the Exporter to the Department (the receipt of which the Department hereby acknowledge) the Department undertake (subject as hereinafter provided) that if default is made by the buyers in payment of any one or more of such instalments as are due and payable in respect of goods comprised in shipments duly declared under the terms of this contract the Department will 12 months after the respective due dates of payment specified in the said schedule pay on request to the Exporter per cent of such instalment or instalments after deduction of all amounts paid by or recovered from the buyers or from any other source on their behalf or from *del credere* agents.

Import regulations, etc.

(1A) The Exporter shall

(i) duly comply with any and every regulation or restriction with regard to quotas, tariffs, imports or exchanges or other matters relating to the importation into of all the goods specified in the proposal and schedule thereto.

(ii) obtain an unconditional undertaking from the responsible authorities that sterling will be available for remittance to the United Kingdom.

Declarations

(2) Immediately after shipment of any of the goods described in the said schedule the Exporter shall declare to the Department on the approved form[1] the gross invoice value of such shipment with such other particulars as are required by the form and the Depart-

[1] The receipt of the declaration will be acknowledged by the Department in writing.

ment will be under no liability in respect of any instalment(s) until the goods shall have been duly delivered to and accepted by the buyers in accordance with the terms of the contract of sale.

Alterations or irregularities.

(3) If any alteration is made in the terms of payment for goods comprised in any shipment declared under the terms of this contract without the prior consent in writing of the Department or in the event of any irregularity in or invalidity of any document under which the buyers accept or undertake liability for payment of such goods the Department shall be under no liability under this contract.

Evidence of transactions.

(4) The Exporter agrees to furnish to the Department such evidence as they may require at any time of the origin or shipment or conditions of sale of goods in respect of which any of the shipments declared under this contract were made and the Department shall have the right to inspect any of the Exporter's books, documents and correspondence relating thereto.

Notification of default.

(5) The Exporter undertakes to notify the Department immediately default is made by the buyers in payment of any instalment or instalments and shall forthwith take all steps that may be necessary or expedient in the mutual interests of the Exporter and the Department to preserve all the rights of the Exporter and to effect recoveries from the buyers.

Transfer of rights to Department.

(6) The Exporter agrees that as from the date of default in payment of any instalment all rights in the whole of the debt due by the buyers shall immediately vest in and be transferred to the Department with full irrevocable power in the name of the Exporter or otherwise and without referring to him to exercise those rights as the Department may think fit including power to grant time and make composition. The Exporter further undertakes to deliver to the Department on demand all documents relating to the credit granted to the buyer at any time after default.

Recoveries.

(7) In the event of payment by the Department under Clause 1 hereof in respect of any instalment the net sums subsequently received by the Exporter or the Department from the buyers or from any source whatever on their behalf or from *del credere* agents after the deduction of the cost of recovery shall be paid to or retained by the Department and the Exporter in proportion to their respective interests in the instalment. Sums recovered in respect of any instalment or instalments prior to payment by the Department shall, notwithstanding the provisions of Clause 6, be wholly the property of the Exporter.

(8) The Exporter undertakes that upon the Department giving him notice in writing he will immediately take such steps as the Department may require for the purpose of obtaining recoveries.

(9) The Department will do their utmost to effect recoveries but shall not be liable on any ground whatsoever for any delay or failure in that respect.

False Statements, Fraudulent Claims and breach of Undertakings.

(10) The Proposal and Declaration thereto shall be incorporated in this contract as the basis thereof and if any of the statements contained therein are untrue or incorrect in any respect or in the event of failure on the part of the Exporter to perform any undertaking therein or herein contained or if the Exporter shall make any claim under this contract knowing the same to be false or fraudulent the liability of the Department shall thereupon cease and the Exporter shall have no claim hereunder but shall repay to the Department on demand all sums paid by them in respect of any instalment and the Department shall be entitled to retain the premium.

Unguaranteed portion of credits and Department's liability.

(11) Unless otherwise agreed by the Department in writing (*a*) the Exporter shall not assign or transfer or otherwise part with or pledge his interest (or any part thereof) in that portion of any credit which is not covered by this contract nor shall he effect any insurance in respect thereof and (*b*) the Department's liability under this contract shall be to the Exporter only and to no other person.

Breach of contract.

(12) The Department shall not be liable under this contract in respect of any loss which may be incurred by reason of any breach of contract or warranty on the part of the Exporter in regard to the quality quantity or description of the relative goods or otherwise.

PROPOSAL TO THE DEPARTMENT FOR AN OPEN CREDIT GUARANTEE CONTRACT (G) (M)

PROPOSAL

(i) Kindly inform us of the terms upon which you are prepared to guarantee the payment of a percentage of such losses as we may sustain by the default of
(hereinafter called the buyers) in payment of instalments of credits in respect of goods described in the schedule hereto sold and delivered by us to such buyers under a contract of sale (a copy of which is attached hereto)[1] entered into in the ordinary course of our business. The total sterling value of the said goods and terms of payment in respect thereof are set out in the Schedule hereto.

(ii) The said goods will be wholly or partly produced or manufactured in the United Kingdom and will not be munitions of war and will be shipped during the period set out in the schedule hereto.

(iii) Payment for the said goods will be secured in the manner specified in the said contract of sale.

DECLARATION

(i) In connection with these transactions, we have not already insured or assigned any portion of the credits in question, nor have we received any indemnity or security whatsoever (other than that referred to in paragraph (iii) of the Proposal above) and we will not insure that portion of the credits not guaranteed by you, nor will we dispose of our interest in such unguaranteed portion nor will we receive any indemnity or security other than as aforesaid in respect of the whole or any part of any credit without your prior consent in writing.

(ii) We will not without your consent in writing declare any shipments to the buyers after we have learned that they are in financial difficulties or that their position appears to be such as to make shipments to them undesirable, or that for any other reason payment at the due date is unlikely.

(iii) We undertake to treat all discussions and correspondence in connection with this proposal and any contract arising therefrom as confidential and not to disclose any of the details either to our agents or to the buyers or to any other person or concern (other than our Brokers and our Bankers) without the prior consent of the Department in writing.

(iv) We certify that the representations made and facts stated by us are true and correct in every particular and we agree that they shall form the basis of and be incorporated in the contract, and that due performance of each and every undertaking contained herein or in the contract shall be a condition precedent to any liability of the Department thereunder.

Signature . . ..

Address . . ..

Business . . . .

Date . .. .

[1] If a copy cannot be attached particulars should be given on a separate sheet.

SCHEDULE

Description of Goods	Shipment Period	Terms of Payment				
		Total Sterling Value of Order	Amount thereof Payable in Cash on or Before Delivery	Total Amount of the Credit Referred to in the Proposal	Amount of each Instalment	Due Date of each Instalment

EXPORT CREDITS GUARANTEE DEPARTMENT

OPEN CREDIT GUARANTEE CONTRACT (G) (M)

CONTRACT made the day of 19 , between who carries on business at (hereinafter called the Exporter) of the one part and the Board of Trade acting through the Export Credits Guarantee Department (which Board so acting is hereinafter called the Department) of the other part.

WHEREAS the Exporter has entered into a contract (a copy of which is attached hereto) (hereinafter called the contract for sale) dated the day of to sell certain goods to the of (hereinafter called the buyers).

AND WHEREAS the Exporter has made a proposal dated the day of (hereinafter called the proposal), that the Department should guarantee payment to the Exporter of per cent of the loss arising from default by the buyers in payment of certain instalments (hereinafter called "the instalments") of which the amounts and due dates of payment are ser out in the Schedule to the proposal.

(1) In consideration of the premium of £ paid by the Exporter to the Department (the receipt of which the Department hereby acknowledge) the Department undertake (subject as hereinafter provided) that if default is made by the buyers in payment of any one or more of such instalments as are due and payable in respect of goods comprised in shipments duly declared under the terms of this contract secured by means of the collateral security as herein provided, the Department will 12 months after the respective due dates of payment specified in the said Schedule pay on request to the Exporter per cent of such instalment or instalments after deduction of all amounts paid by or recovered from the buyers or from any other source on their behalf or from *del credere* agents or from realisation of the collateral security.

(1A) The exporter shall **Collateral security, etc.**

(i) obtain from the buyers as security for the payment of the said instalments

(herein referred to as the collateral security) and the Exporter hereby undertakes that subject to the provisions of Clause 7 hereof he will hold the collateral security for the joint account of the Department and himself and that he will not deal with or dispose of the same without the consent of the Department in writing until the Department's liability under this contract shall have been extinguished and the Exporter hereby accepts entire responsibility for the safe custody of the collateral security.

(ii) duly comply with any and every regulation or restriction with regard to quotas, tariffs, imports or

exchanges or other matters relating to the importation into   of all the goods specified in the proposal and schedule thereto.

(iii) obtain an unconditional undertaking from the responsible authorities that sterling will be available for remittance to the United Kingdom.

Declarations.

(2) Immediately after shipment of any of the goods described in the said schedule the Exporter shall declare to the Department on the approved form[1] the gross invoice value of such shipment with such other particulars as are required by the form and the Department will be under no liability in respect of any instalment(s) until the goods shall have been duly delivered to and accepted by the buyers in accordance with the terms of the contract of sale and the collateral security shall have been duly obtained by the Exporter as herein provided.

Alterations or Irregularities.

(3) If any alteration is made in the terms of payment for goods comprised in any shipment declared under the terms of this contract or in the collateral security without the prior consent in writing of the Department, or in the event of any irregularity in or invalidity of the collateral security or any document under which the buyers accept or undertake liability for payment for such goods, the Department shall be under no liability under this contract.

Evidence of transactions.

(4) The Exporter agrees to furnish to the Department such evidence as they may require at any time of the origin or shipment or conditions of sale of goods in respect of which any of the shipments declared under this contract were made and the Department shall have the right to inspect any of the Exporter's books documents and correspondence relating thereto.

Notification of default.

(5) The Exporter undertakes to notify the Department immediately default is made by the buyers in payment of any instalment or instalments and shall forthwith take all steps that may be necessary or expedient in the mutual interests of the Exporter and the Department to preserve all the rights of the Exporter, and to effect recoveries from the buyers and for realisation of the collateral security.

Transfer of rights to Department.

(6) The Exporter agrees that as from the date of default in payment of any instalment all rights in the whole of the debt due by the buyers and in the collateral security shall immediately vest in and be transferred to the Department with full irrevocable power in the name of the Exporter or otherwise and without referring to him to exercise those rights as the Department may think fit including power to grant time and make composition. The Exporter further undertakes to deliver to the Department on demand all documents relating to the credit granted to the buyer or the collateral security at any time after default.

[1] The receipt of the declaration will be acknowledged by the Department in writing.

(7) In the event of payment by the Department under Clause 1 hereof in respect of any instalment the net sums subsequently received by the Exporter or the Department from the buyers or from any source whatever on their behalf or from *del credere* agents or from realisation of the collateral security after the deduction of the cost of recovery shall be paid to or retained by the Department and the Exporter in proportion to their respective interests in the instalment. Sums recovered in respect of any instalment or instalments or realised from the collateral security prior to payment by the Department shall, notwithstanding the provisions of Clause 6, be wholly the property of the Exporter. **Recoveries.**

(8) The Exporter undertakes that upon the Department giving him notice in writing he will immediately take such steps as the Department may require for the purpose of obtaining recoveries.

(9) The Department will do their utmost to effect recoveries and to realise the collateral security but shall not be liable on any ground whatsoever for any delay or failure in that respect.

(10) The proposal and declaration thereto shall be incorporated in this contract as the basis thereof and if any of the statements contained therein are untrue or incorrect in any respect or in the event of failure on the part of the Exporter to perform any undertaking therein or herein contained or if the Exporter shall make any claim under this contract knowing the same to be false or fraudulent the liability of the Department shall thereupon cease and the Exporter shall have no claim hereunder but shall repay to the Department on demand all sums paid by them in respect of any instalment and the Department shall be entitled to retain the premium. **False Statements, Fraudulent Claims and breach of undertakings.**

(11) Unless otherwise agreed by the Department in writing (*a*) the Exporter shall not assign or transfer or otherwise part with or pledge his interest (or any part thereof) in that portion of any credit which is not covered by this contract nor shall he effect any insurance in respect thereof and (*b*) the Department's liability under this contract shall be to the Exporter only and to no other person. **Unguaranteed portion of bills and Department's liability.**

(12) The Department shall not be liable under this contract in respect of any loss which may be incurred by reason of any breach of contract or warranty on the part of the Exporter in regard to the quality quantity or description of the relative goods or otherwise. **Breach of contract.**

PROPOSAL TO THE DEPARTMENT FOR A BILL OF EXCHANGE GUARANTEE CONTRACT (G) (S)

PROPOSAL

(i) Kindly inform us of the terms upon which you are prepared to guarantee the payment of a percentage of such losses as we may sustain by the non-payment of bills of exchange drawn in sterling on and duly accepted by of (hereinafter called the buyers) in payment for goods described in the schedule hereto sold and delivered by us to such buyers under a contract of sale entered into in the ordinary course of our business —the said bills not to exceed the tenor and amounts set out in the schedule hereto.

(ii) The said goods will be wholly or partly produced or manufactured in the United Kingdom and will not be munitions of war and will be shipped during the period set out in the schedule hereto.

DECLARATION

(i) In connection with these transactions, we have not already insured or disposed of any portion of the bills in question, nor have we received any indemnity or security whatsoever, and we will not insure that portion of the bills not guaranteed by you, nor will we dispose of our interest in such unguaranteed portion nor will we receive any indemnity or security other than as aforesaid in respect of the whole or any part of the bills without your consent in writing.

(ii) We will not without your consent in writing declare bills on the buyers after we have learned that they are in financial difficulties or that their position appears to be such as to make shipments to them undesirable, or that for any other reason payment at the due date is unlikely.

(iii) We undertake to treat all discussions and correspondence in connection with this proposal and any contract arising therefrom as confidential and not to disclose any of the details either to our agents or to the buyers or to any other person or concern (other than our Brokers and our Bankers) without the prior consent of the Department in writing.

(iv) We certify that the representations made and facts stated by us are true and correct in every particular and we agree that they shall form the basis of and be incorporated in the contract, and that due performance of each and every undertaking contained herein or in the contract shall be a condition precedent to any liability of the department thereunder.

Signature ....

Address ....

Business ....

Date ....

SCHEDULE

Description of Goods	Shipment Period	Terms of Payment				
		Total Sterling Value of Order	Amount thereof Payable in Cash on or before Delivery	Total Amount of the Bills Referred to in the Proposal	Tenor of each Bill	Amount of each Bill

EXPORT CREDITS GUARANTEE DEPARTMENT
BILL OF EXCHANGE GUARANTEE CONTRACT (G) (S)

CONTRACT made the day of 19 between who carries on business at (hereinafter called the Exporter) of the one part and the Board of Trade acting through the Export Credits Guarantee Department (which Board so acting is hereinafter called the Department) of the other part.

WHEREAS the Exporter has entered into a contract (hereinafter called the contract for sale) dated the day of to sell certain goods to the of (hereinafter called the buyers).

AND WHEREAS the Exporter has made a proposal dated the day of , (hereinafter called the proposal), that the Department should guarantee payment to the Exporter of per cent of the loss arising from the non-payment of certain Bills of Exchange referred to in the proposal and schedule thereto.

Guarantee. NOW IT IS HEREBY AGREED AS FOLLOWS—

(1) In consideration of the premium of £ paid by the Exporter to the Department (the receipt of which the Department hereby acknowledge) the Department undertake subject as hereinafter provided, that if any one or more of such bills as are referred to in the proposal and the schedule thereto having been declared in accordance with this contract is/are duly presented for payment on the due date(s) thereof in accordance with the custom of bankers in the country in which such bill or bills are presented and is/are dishonoured by non-payment the Department will 12 months after such dishonour pay on request to the Exporter per cent of the amount of such bill or bills after deduction from such amount of all amounts paid by or recovered from the buyers or from any other source on their behalf or from *del credere* Agents.

Import regulations, etc. (1A) The Exporter shall—

(i) duly comply with any and every regulation or restriction with regard to quotas, tariffs, imports or exchanges or other matters relating to the importation into of all the goods specified in the proposal and schedule thereto.

(ii) obtain an unconditional undertaking from the responsible authorities that sterling will be available for remittance to the United Kingdom.

Declarations. (2) Immediately after shipment the Exporter shall declare to the Department on the approved form particulars of the bill or bills and such other particulars as are required by the form[1] and the Department will

[1] The receipt of the declaration will be acknowledged by the Department in writing.

be under no liability in respect of any such bill or bills until such bill or bills shall have been accepted.

(3) If any alteration in the terms of a bill declared under this contract is made without the prior consent of the Department in writing the Department shall be under no liability in regard to such bill. Alteration in Bills.

(4) In the event of any irregularity in any bill the Department shall be under no liability in regard to such bill. Irregularity.

(5) The Exporter agrees to furnish to the Department such evidence as they may require at any time of the origin or shipment or conditions of sale of goods in respect of which any of the bills declared under this contract were drawn and the Department shall have the right to inspect any of the Exporter's books, documents and correspondence relating thereto. Evidence of transactions.

(6) The Exporter undertakes to notify the Department immediately after the dishonour of any bill by non-payment and shall forthwith take all steps that may be necessary or expedient in the mutual interests of the Exporter and the Department to preserve all rights in the bill and to effect recoveries from the buyers. Notification of default.

(7) The Exporter agrees that as from the date of dishonour by non-payment of any bill declared under this contract all rights thereunder shall immediately vest in the Department with full irrevocable power in the name of the Exporter or otherwise and without referring to him to exercise those rights as the Department may think fit including power to grant time and make composition. The Exporter further undertakes to deliver to the Department on demand any such bill at any time after such dishonour. Transfer of rights to Department.

(8) In the event of payment by the Department under Clause 1 hereof in respect of a dishonoured bill the net sums subsequently received by the Exporter or the Department from the buyers or from any source whatever on their behalf or from *del credere* agents after the deduction of the cost of recovery shall be paid to or retained by the Department and the Exporter in proportion to their respective interests in the bill. Sums recovered under a dishonoured bill prior to payment by the Department shall, notwithstanding the provisions of Clause 7, be wholly the property of the Exporter. Recoveries.

(9) The Exporter undertakes that upon the Department giving him notice in writing he will immediately take such steps as the Department may require for the purpose of obtaining recoveries.

(10) The Department will do their utmost to effect recoveries but shall not be liable on any ground whatsoever for any delay or failure in that respect.

False Statements, Fraudulent Claims and Breach of Undertakings.

(11) The proposal and declaration thereto shall be incorporated in this contract as the basis thereof and if any of the statements contained therein are untrue or incorrect in any respect or in the event of failure on the part of the Exporter to perform any undertaking therein or herein contained or if the Exporter shall make any claim under this contract knowing the same to be false or fraudulent the liability of the Department shall thereupon cease and the Exporter shall have no claim hereunder but shall repay to the Department on demand all sums paid by them in respect of any bill and the Department shall be entitled to retain the premium.

Unguaranteed portion of bills and Department's liability.

(12) Unless otherwise agreed by the Department in writing (*a*) the Exporter shall not assign or transfer or otherwise part with or pledge his interest (or any part thereof) in that portion of the bills of exchange not covered by this contract nor shall he effect any insurance in respect thereof and (*b*) the Department's liability under this contract shall be to the Exporter only and to no other person.

Indemnity by Exporter.

(13) The Exporter agrees to indemnify the Department against any loss which may be incurred by reason of any breach of contract or warranty on the part of the Exporter in regard to the quality, quantity or description of the relative goods or otherwise.

PROPOSAL TO THE DEPARTMENT FOR A BILL OF EXCHANGE GUARANTEE CONTRACT (G) (M)

PROPOSAL

(i) Kindly inform us of the terms upon which you are prepared to guarantee the payment of a percentage of such losses as we may sustain by the non-payment of bills of exchange drawn in sterling on and duly accepted by   of
(hereinafter called the buyers) in payment for goods described in the schedule hereto sold and delivered by us to such buyers under a contract of sale (a copy of which is attached hereto[1]) entered into in the ordinary course of our business—the said bills not to exceed the tenor and amounts set out in the schedule hereto.

(ii) The said goods will be wholly or partly produced or manufactured in the United Kingdom and will not be munitions of war and will be shipped during the period set out in the schedule hereto.

(iii) Payment of the said bills will be secured in the manner specified in the said contract of sale.

DECLARATION

(i) In connection with these transactions, we have not already insured or disposed of any portion of the bills in question, nor have we received any indemnity or security whatsoever (other than that referred to in paragraph (iii) of the Proposal above), and we will not insure that portion of the bills not guaranteed by you, nor will we dispose of our interest in such unguaranteed portion nor will we receive any indemnity or security other than as aforesaid in respect of the whole or any part of the bills without your consent in writing.

(ii) We will not without your consent in writing declare bills on the buyers after we have learned that they are in financial difficulties or that their position appears to be such as to make shipments to them undesirable, or that for any other reason payment at the due date is unlikely.

(iii) We undertake to treat all discussions and correspondence in connection with this proposal and any contract arising therefrom as confidential and not to disclose any of the details either to our agents or to the buyers or to any other person or concern (other than our Brokers and our Bankers) without the prior consent of the Department in writing.

(iv) We certify that the representations made and facts stated by us are true and correct in every particular and we agree that they shall form the basis of and be incorporated in the contract, and that due performance of each and every undertaking contained herein or in the contract shall be a condition precedent to any liability of the Department thereunder.

Signature ....

Address ....

Business ....

Date ....

[1] If a copy cannot be attached, particulars should be given on a separate sheet.

SCHEDULE

Description of Goods	Shipment Period	Terms of Payment			
		Total Value of Order	Total Amount of the Bills Referred to in the Proposal	Tenor of each Bill	Amount of each Bill

BILL OF EXCHANGE GUARANTEE CONTRACT (G) (M)

EXPORT CREDITS GUARANTEE DEPARTMENT

CONTRACT made the day of 19 , between
who carried on business at
(hereinafter called the Exporter) of the one part and the Board of Trade acting through the Export Credits Guarantee Department (which Board so acting is hereinafter called the Department) of the other part.

WHEREAS the Exporter has entered into a contract (a copy of which is attached hereto) (hereinafter called the contract for sale) dated the day of
to sell certain goods to the of
(hereinafter called the buyers).

AND WHEREAS the Exporter has made a proposal dated the day of , (hereinafter called the proposal), that the Department should guarantee payment to the Exporter of per cent of the loss arising from the non-payment of certain Bills of Exchange referred to in the proposal and the schedule thereto, and secured in the manner provided by the contract for sale.

NOW IT IS HEREBY AGREED AS FOLLOWS—

Alternative Clause 1 to apply to cases where it is not possible to note or protest bills.

(1) In consideration of the premium of £ paid by the Exporter to the Department (the receipt of which the Department hereby acknowledge) the Department undertake subject as hereinafter provided, that if any one or more of such bills as are referred to in the proposal and the schedule thereto, and secured by means of the collateral security as hereinafter provided, having been declared in accordance with this contract is/are duly presented for payment on the due date(s) thereof in accordance with the custom of bankers in the country in which such bill or bills are presented and is/are dishonoured by non-payment the Department will 12 months after such dishonour pay on request to the Exporter
per cent of the amount of such bill or bills after deduction from such amount of all amounts paid by or recovered from the buyers or from any other source on their behalf and from realisation of the collateral security.

Collateral security, etc.

(1A) The Exporter shall

(i) obtain from the buyers as security for the payment of the said bills

(herein referred to as the collateral security) and the Exporter hereby undertakes that subject to the provisions of Clause 7 hereof he will hold the collateral security for the joint account of the Depart-

ment and himself and that he will not deal with or to dispose of the same without the consent of the Department in writing until the Department's liability under this contract shall have been extinguished and the Exporter hereby accepts entire responsibility for the safe custody of the collateral security.

(ii) duly comply with any and every regulation or restriction with regard to quotas, tariffs, imports or exchanges or other matters relating to the importation into   of all the goods specified in the proposal and schedule thereto.

(iii) obtain an unconditional undertaking from the responsible authorities that sterling will be available for remittance to the United Kingdom.

Declarations.

(2) Immediately after shipment the Exporter shall declare to the Department on the approved form particulars of the bill or bills and such other particulars as are required by the form[1] and the Department will be under no liability in respect of any such bill or bills until such bill or bills shall have been accepted and the collateral security shall have been duly obtained by the Exporter as herein provided.

Alteration in Bills.

(3) If any alteration in the terms of a bill declared under this contract or in the collateral security is made without the prior consent of the Department in writing the Department shall be under no liability in regard to such bill.

Irregularity.

(4) In the event of any irregularity in any bill or of any irregularity in or invalidity of the collateral security therefor the Department shall be under no liability in regard to such bill.

Evidence of transactions.

(5) The Exporter agrees to furnish to the Department such evidence as they may require at any time of the origin or shipment or conditions of sale of goods in respect of which any of the bills declared under this contract were drawn and the Department shall have the right to inspect any of the Exporter's books, documents and correspondence relating thereto.

Notification of default.

(6) The Exporter undertakes to notify the Department immediately after the dishonour of any bill by non-payment and shall forthwith take all steps that may be necessary or expedient in the mutual interests of the Exporter and the Department to preserve all rights in the bill and to effect recoveries from the buyers and for realisation of the collateral security.

Transfer of rights to Department.

(7) The Exporter agrees that as from the date of dishonour by non-payment of any bill declared under this contract all rights thereunder and in the collateral security shall immediately vest in the Department with full irrevocable power in the name of the Exporter or

[1] The receipt of the declaration will be acknowledged by the Department in writing.

otherwise and without referring to him to exercise those rights as the Department may think fit including power to grant time and make composition. And the Exporter undertakes to deliver to the Department on demand any such bill and/or the collateral security at any time after such dishonour.

(8) In the event of payment by the Department under Clause 1 hereof in respect of a dishonoured bill the net sums subsequently received by the Exporter or the Department from the buyers or from any source whatever on their behalf or from realisation of the collateral security after the deduction of the cost of recovery shall be paid to and/or retained by the Department and the Exporter in proportion to their respective interests in the bill. Sums recovered under a dishonoured bill or realised from the collateral security prior to payment by the Department shall, notwithstanding the provision of Clause 7, be wholly the property of the Exporter. Recoveries.

(9) The Exporter undertakes that upon the Department giving him notice in writing he will immediately take such steps as the Department may require for the purpose of obtaining recoveries.

(10) The Department will do their utmost to effect recoveries and/or realise the collateral security but shall not be liable on any ground whatsoever for any delay or failure in that respect.

(11) The proposal and declaration thereto shall be incorporated in this contract as the basis thereof and if any of the statements contained therein are untrue or misleading in any material respect or in the event of failure on the part of the Exporter to perform any undertaking therein or herein contained or if the Exporter shall make any claim under this contract knowing the same to be false or fraudulent the liability of the Department shall thereupon cease and the Exporter shall have no claim hereunder but shall repay to the Department on demand all sums paid by them in respect of any bill and the Department shall be entitled to retain the premium. False Statements, Fraudulent Claims and breach of undertakings.

(12) Unless otherwise agreed by the Department in writing (*a*) the Exporter shall not assign or transfer or otherwise part with or pledge his interest (or any part thereof) in that portion of the bills of exchange not covered by this contract nor shall he effect any insurance in respect thereof and (*b*) the Department's liability under this contract shall be to the Exporter only and to no other person. Unguaranteed portion of bills and Department's liability.

(13) The Exporter agrees to indemnify the Department against any loss which may be incurred by reason of any breach of contract or warranty on the part of the Exporter in regard to the quality, quantity or description of the relative goods or otherwise. Indemnity by Exporter.

ADDENDUM TO COMPREHENSIVE GUARANTEE

General Transfer Risk

WHEREAS a Policy No. F/ (hereinafter called "the Policy") was made between who carries on business at (hereinafter called "the Exporter") and the Board of Trade acting by the Export Credits Guarantee Department (hereinafter called "the Department") on the day of

AND WHEREAS the Exporter has requested the Department to give a further guarantee in connection therewith.

NOW THEREFORE it is agreed that this addendum shall be attached to the policy and in consideration of the additional premium of (the receipt of which is hereby acknowledged) the Department further guarantee subject as hereinafter provided to pay to the Exporter... 75....per cent (hereinafter called "the agreed percentage") of the amount of any bill of exchange or open credit account expressed to be payable in effective sterling (either of which is hereinafter termed "a debt") to which the policy may from time to time attach relating to goods shipped between and (hereinafter called "the period of shipment") to a buyer ordinarily resident or ordinarily carrying on business in any of the countries (hereinafter called "the specified countries") specifically mentioned in Condition (9) hereof.

Conditions

(1) This guarantee shall attach to a debt only where—

(*a*) payment of the debt (which expression means for the purpose of this guarantee, the receipt by the Exporter of payment in sterling within the United Kingdom of the amount of the debt, the term "unpaid" in relation to the debt being construed accordingly) is prevented or delayed solely by reason of the operation of a Law, or of an Order, Decree or Regulation having the force of Law, which restricts or controls the transfer of payments from the buyer's country to the United Kingdom (any such Law, Order, Decree or Regulation being hereinafter referred to as an Exchange Regulation); and

(*b*) the Exporter and the buyer have complied with any and every Import and Customs Regulation due to be complied with by them in respect of the importation of the relative goods into the buyer's country; and

(*c*) the Exporter and the buyer have complied with any and every Exchange Regulation of the buyer's country compliance with which is required to ensure payment of the debt, and have taken all such steps as it was possible for them to take for that purpose; and

(*d*) the buyer being in any of the following countries, viz.—

has either paid the amount of the debt in sterling in his own country or has deposited the equivalent in the currency of that country at the rate of exchange then ruling with a bank approved by the Exporter for the sole use and benefit of the Exporter in such manner

the subsequent payment of the debt is not thereby prejudiced, 'ented or delayed.

) Unless otherwise agreed by the Department in writing this 'antee shall not attach to—

(*a*) any debt due from a buyer in any of the specified countries, e original terms of payment of which are more favourable to e buyer than those indicated hereunder for that country—

ountry	*Terms of Payment*	*Country*	*Terms of Payment*

or (*b*) any debt due from a buyer in any of the specified countries e terms of payment of which have been extended in favour of e buyer by the Exporter at a time when any Exchange Regula- on was in force in that country;

or (*c*) any debt due from a buyer who becomes insolvent at any ne before the due date for payment by the Department here- ıder.

) The Exporter shall declare to the Department on the approved ı in respect of each of the specified countries—

(*a*) within ten days after each calendar month in the period of ipment the gross invoice value of each shipment to each buyer dinarily resident or ordinarily carrying on business in that untry made during that month together with such information is required by such form; and

(*b*) forthwith at the end of each calendar month the amount every debt hereby guaranteed which remains wholly or partly ıpaid three months after the due date thereof.

) If any debt hereby guaranteed remains wholly or partly un- at the expiration of six months from the original due date eof the Department will pay to the Exporter the agreed per- age of the amount remaining unpaid provided that the total nent by the Department in respect of the debts of any buyer ıding any debts guaranteed or to be guaranteed by the Depart- t under the policy or any previous contract (after deduction ll recoveries retained by the Department in respect of such s) shall not exceed the agreed percentage of the maximum ıt to that buyer to which the policy attaches.

The Exporter when making any claim hereunder shall—

(*a*) deliver to the Department full particulars of the debt and rtified copies of the relative bills of lading and invoices; and

(*b*) submit to the Department any available information as the solvency of the buyer and evidence that he and the buyer ve complied with the requirements of Condition (1), (*b*), (*c*) d (*d*) hereof and furnish such certificates and other documents the Departments may require; and

(*c*) direct the buyer or the collecting bank to make all further yments in respect of the debt to the Department.

Upon payment by the Department under Condition (4) all s in the debt and any security therefor and any document

relating thereto shall be transferred to the Department and the Department shall be entitled to the whole of the amounts recovered by the Exporter or the Department from the buyer or from any other source in respect of the debt to an amount equal to that of the payment made together with any costs and expenses incurred by the Department and interest calculated from day to day at the rate of 1 per cent above Bank rate upon the amount from time to time paid by the Department and unrecovered. Any further sums recovered shall be paid to the Exporter.

(7) If after the Department have made any payment under Condition (4) but before the Department have recovered the whole amount receivable by them under Condition (6) the buyer should become insolvent the Exporter shall on demand immediately refund to the Department the net amount paid by them together with interest at the rate of 1 per cent above Bank rate from the date of payment by the Department to the date of repayment by the Exporter.

(8) If the Exporter shall make any claim hereunder knowing the same to be false or fraudulent the liability of the Department hereunder shall thereupon cease and the Exporter shall have no claim hereunder and shall repay to the Department on demand all sums paid by them and the Department shall be entitled to retain the premium.

(9) The total amount of all declarations under Condition (3) (*a*) shall not exceed £ and when the total of the said declarations amount to

£	in respect of	£	in respect of
£	in respect of	£	in respect of
£	in respect of	£	in respect of
£	in respect of	£	in respect of
£	in respect of	£	in respect of
£	in respect of	£	in respect of
£	in respect of	£	in respect of
£	in respect of	£	in respect of
£	in respect of	£	in respect of
£	in respect of	£	in respect of
£	in respect of	£	in respect of
£	in respect of	£	in respect of

this guarantee shall not attach to a debt for any goods further declared in respect of that country.

Dated this day of 193 .

SIGNED on behalf of the Board of Trade in pursuance of the provisions of the Overseas Trade Acts 1920–1934.

Witnessed by:

E.C.G. 92.

SHIPMENTS Transfer Addm. Gnl.

One of these forms for each country (in duplicate) should be completed and forwarded to the Department on or before the 10th of each month declaring the gross invoice value of every shipment during the preceding month.

To EXPORTS CREDITS GUARANTEE DEPARTMENT,
9, CLEMENTS LANE, LOMBARD STREET, LONDON, E.C.4.

Country ....

The gross invoice value of all shipments made during the month of ....to each of our buyers in the country named and declared in accordance with Condition 3 (*a*) of the Addendum to Policy No................dated........................ ....
is as follows:

Shipment Date	Buyer's Name and Address	Gross Invoice Value (nearest £) of Each Shipment on Following Terms:				Goods[1]	
		Cash—30 Days	31–90 Days	91–120 Days	121–180 Days	Description	Value (to the nearest £)
		£	£	£	£		
Total of Shipments for Month						Gross Shipment for Month £	

SUMMARY OF POSITION at the end of the Month

Total shipments declared to the Department:
(*a*) in this declaration (as above) . .
(*b*) previously . . . . .

Gross Total . . . £

Total sterling remittances received against the above:
(*a*) in this month . . . . .
(*b*) previously . . . . .

Gross Total . . . £

Declaration acknowledged.

Accountant.
EXPORT CREDITS GUARANTEE DEPARTMENT.

....19........

Certified by:
(*Exporter's Signature*)

Postal Address

Date

[1] If all goods shipped are of same description (e.g. Cotton, Yarns) it will be sufficient to state so under heading "Description." Otherwise the type and value of goods in each shipment should be given.

E.C.G. 93.

A separate form must be used for each country.

OVERDUES
(*Transfer Addendum*—GNL)

EXPORT CREDITS GUARANTEE DEPARTMENT

9, Clements Lane, Lombard Street, London, E.C.4

Country ....

Policy No. ....

We hereby make the following declaration concerning our buyers in the above-named Country in accordance with Condition 3 (*b*) of the Addendum to the above Policy.

Name and Address of Buyer	Date of Shipment	Date Due	Amount of Debt 3 Months' Overdue			Remarks
			£	*s.*	*d.*	
		Total £				

Declaration acknowledged

....
Accountant

Export Credits Guarantee Department

....193 .

Certified by ....
(*Exporter's signature*)

Postal Address ....

....

Date ....

September, 1935.

To the EXPORT CREDITS GUARANTEE DEPARTMENT
9, CLEMENTS LANE, LOMBARD STREET, LONDON, E.C.4

APPLICATION FOR TRANSFER ADDENDUM TO COMPREHENSIVE GUARANTEE

We have read a specimen of the Addendum and apply for such an Addendum to
our Policy No.
the Policy for which we have applied, ________________ in respect of goods shipped to the undermentioned countries during the three months from
19 to 19 .

We give you below particulars of our turnover for the corresponding months of last year, together with the amount of cover for each market now applied for and the maximum terms of payment.

Country	3 Months' Turnover (Last Year)	Amount of Cover Applied For	Maximum Terms of Payment	For Use in Department
		£		

£

For use of Department:
(1) Underwritten by:
(2) Recorded (U/Ws).
,, (Stats).
(3) Quotation issued.
(4) Addendum issued.
(5) Accountant notified ....
(6) Statistics notified

Signature..

Address ....

....

Business ....

Date..

VARIATIONS

Date	Variation(s) Proposed	Underwriters' Decision	Initials and Date

CHAPTER XV

BIBLIOGRAPHY

A Bibliography for the use of those who desire to pursue still farther the subject of the Finance of Foreign Trade and all that appertains to it in theory and in practice.

"Of making many books there is no end: and much study is weariness of the flesh" said the prophet of old, and yet there is no book so bad but that profit may be derived from some part of it. The writer has rubbed shoulders with a good many men, both in banking and in trade—some have been theorists, pure and simple: others have claimed to be "all practical": still others have been a mixture of both. We leave it to the reader to judge which is the best class. One is often asked: "What is the good of book reading and theoretical knowledge to the busy man of affairs?" Well, as a banker friend said, the answer to that question depends upon the point of view. There is a good deal to be said on the side of theory. Perhaps the trader will agree with the late John Morley's definition of a theorist as a man who recognizes that there is some relation between cause and effect. We need not argue the point. Let us admit at once that the student by nature is, often, an indifferent man of affairs. Let us also admit that commercial success is often achieved by those who not only have no theoretical knowledge of the principles involved in their successful practice, but who roundly assert that they are better, that is, more efficient, without it. In business, they say, we have to deal with facts and not with theories. Well, that is quite true. But the difficulty is that in commerce generally, particularly in that branch of it known as the export and import trade, the facts are so complicated and oft-times obscure, that if we were to deal with facts alone we should never make any progress at all.

To the reader, then, who really is seized with the desire to make the greatest possible progress, we give a list of works on trade and the finance of trade which he may consult with advantage, and, we venture to hope, with profit both to himself and to the country at large.

THE EXPORTER'S HANDBOOK AND GLOSSARY. By F. M. Dudeney. (Price 7s. 6d. net; London, Sir Isaac Pitman & Sons, Ltd.)

This is a useful little book, giving in handy form information for the manufacturer and the merchant shipper on the export trade.

TRADE TERM DEFINITIONS—COMMODITY MARKET TERMS. By C. Maughan. (Price, 4s. net and 7s. 6d. net, respectively; London, Sir Isaac Pitman & Sons, Ltd.)

These two volumes include the series of articles that appeared for many months in the Trade Supplement of *The Times*. They contain a discussion of the words and phrases used in the conduct of international trade, and methods of dealing in products. General merchanting, shipping and insurance are also discussed, and the books form a useful part of the merchant's desk stock in trade.

THE BRITISH IN CHINA AND FAR EASTERN TRADE. By C. A. Middleton-Smith. (Price 25s.; London, Constable & Co., Ltd.)

This is a work dealing with work and progress of British traders and financiers in China—it will well bear perusal, and contains many useful hints on how to work up and conduct business with the Far East. It has the advantage of being written by a man who has spent many years in the East.

FOREIGN EXCHANGE AND FOREIGN BILLS IN THEORY AND IN PRACTICE. By W. F. Spalding. (Price 7s. 6d. net; London, Sir Isaac Pitman & Sons, Ltd.)

This book gives a complete account of the working of the foreign exchanges, shows the difference between "spot" and "forward" exchange, and contains details of the drawing and negotiation of bills of exchange between all the important foreign centres. Those who may wish to study the subject of "Foreign Exchange" in shorter form may be advised to invest 3s. 6d. in the purchase of—

A PRIMER OF FOREIGN EXCHANGE, by the same author and by the same publishers.

THE LAW OF CHARTERS AND BILLS OF LADING. By S. F. Cole. (Price 4s. net; London, Sir Isaac Pitman & Sons, Ltd.)

This is a useful little handbook, and as the law on Charters is shortly explained, it will commend itself to the busy man of affairs.

THE LAW AS TO C.I.F. CONTRACTS. By H. Goitein. (Price 4s. net; London, Sir Isaac Pitman & Sons, Ltd.)

The nature of C.I.F. contracts is well explained here, and details are given on shipment, freights, insurance, invoicing, etc. It is worth the study of merchants.

EASTERN EXCHANGE, CURRENCY AND FINANCE. By W. F. Spalding. (Price 15s. net. London, Sir Isaac Pitman & Sons, Ltd.)
This book runs into 486 pages, but deals in separate sections with the exchange, trade, and finance of India, Persia, the Straits Settlements, China, Japan, and the smaller countries of the Far East. Both bankers' and traders' operations receive full treatment. It embodies a quarter of a century's experience of the author in the finance of foreign trade, and should be of material assistance to those who wish to extend their trade with Far Eastern countries.

BANKERS AND BORROWERS. By John Brunton. (Price 7s. 6d.; London, Arnold & Co.)
Written by a practical banker mainly for bankers, this book may be recommended to those who would like to know precisely on what principles the banker works in granting accommodation to those who wish to borrow.

The books we have enumerated are, of course, but a few of the many kindred books that are published, but in making a choice, we have been guided by the wish of merchants to acquire a small library which will cover practically every aspect of the problem of the finance of foreign trade.

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